



*"A place of excellence"*

# **DRAKENSTEIN MUNICIPALITY**

## **FINANCIAL ASSET MANAGEMENT POLICY**

### **1 July 2016**

**Approved by Council: 20 May 2016**

**Date of implementation: 1 July 2016**

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## **PREAMBLE**

Whereas section 63(2)(b) of the Municipal Finance Management Act (Act no. 56 of 2003) requires a Municipality's assets to be valued according to standards of generally recognised accounting practice (GRAP) and section 122(3) determines the preparation of annual financial statements in accordance with GRAP;

And whereas sections 14 and 90 of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) sets out certain requirements regarding disposal of municipal assets and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued;

And whereas the Municipal Council of Drakenstein Municipality wishes to adopt a policy to guide the Municipal Manager in the financial management of the Municipality's assets;

And whereas the Municipal Manager as custodian of municipal funds and assets is responsible for the implementation of the Financial Asset Management Policy which regulate the acquisition, safeguarding and maintenance of all assets;

And whereas these assets must be safeguarded and maintained over their useful lives and may be –

- Used in the production or supply of goods and services or for administrative purposes;
- Held to earn rentals or for capital appreciation or both; or
- Held indefinitely for the benefit of present and future generations, due to its cultural, environmental, historical, natural, scientific, technological or artistic significance.

Now therefore the Municipal Council of the Drakenstein Municipality adopts the following Financial Asset Management Policy.

## **ABBREVIATIONS**

AM	Asset Management
AR	Asset Register
CFO	Chief Financial Officer
DM	Drakenstein Municipality
GRAP	Standards of Generally Recognised Accounting Practice
HA	Heritage Assets
IA	Intangible Assets
IP	Investment Property
MFMA	Municipal Finance Management Act (No. 56 of 2003)
MM	Municipal Manager (Accounting Officer)
MSA	Municipal Systems Act (No. 32 of 2000)
OHSA	Occupational Health and Safety Act (No. 181 of 1993)
PPE	Property, Plant and Equipment

## **1. PURPOSE OF THIS DOCUMENT**

1.1 This document indicates the policy of Drakenstein Municipality (DM) for the management of its assets (which excludes financial assets such as receivables and cash), and it commits the Municipality to –

- (a) Managing and maintaining municipal assets in a way that is aligned with the Municipality's strategic objectives and recognised good practice; and
- (b) Establishing and maintaining an asset register that complies with the latest accounting standards.

## **2. BACKGROUND**

### **2.1 RATIONALE FOR ASSET MANAGEMENT**

- 2.1.1 Municipal assets are the means by which the Municipality delivers a range of essential municipal services. Consequently the management of assets is critical to meeting the strategic objectives of the Municipality and in measuring its performance.
- 2.1.2 The principal objective of asset management is therefore to enable the Municipality to meet its service delivery objectives efficiently and effectively. Effective asset management also makes the most of the service potential of assets by ensuring they are appropriately used and maintained. Good asset management facilitates the provision of services in a financially sustainable manner requiring adequate automation of critical processes within the asset management cycle.
- 2.1.3 Typical to an effective and efficient system at least the following functions need to be addressed by the minimum business process requirements –

- (a) Safeguarding of assets, e.g. asset tracking, numbering and locations;
- (b) Maintaining assets, planned and unplanned maintenance which needs to also incorporate capital asset renewal;
- (c) Maintenance costing as an input into asset replacement plans;
- (d) Establishing and maintaining a management, accounting and information system that accounts for the assets of the Municipality;
- (e) Asset valuation principles in accordance with Generally Recognised Accounting Practice;
- (f) Establishing and maintaining systems of internal controls over assets;
- (g) Establishing and maintaining an asset register;
- (h) Clarifying responsibilities and accountabilities for the asset management process; and
- (i) Insurance of assets.

2.1.4 The utilisation and management of assets is the prime mechanism by which a Municipality can fulfil its constitutional mandates for –

- (a) Delivery of sustainable services;
- (b) Social and economic development;
- (c) Promoting safe and health environments; and
- (d) Providing the basic needs to the community.

2.1.5 On behalf of the local community, the Municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in municipal assets. The Financial Asset

Management Policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of municipal assets. Stewardship has two components being the –

- (a) Physical administration by the Manager: Assets and Insurance Management (and directors of relevant departments); and
- (b) Financial administration by the Chief Financial Officer.

2.1.6 To this end, *statutory provisions* have been implemented to protect public property against arbitrary and inappropriate management or disposal by a local government, and *accounting standards* have been promulgated to ensure the appropriate financial treatment for different types of assets.

2.1.7 The requirements of these accounting standards include –

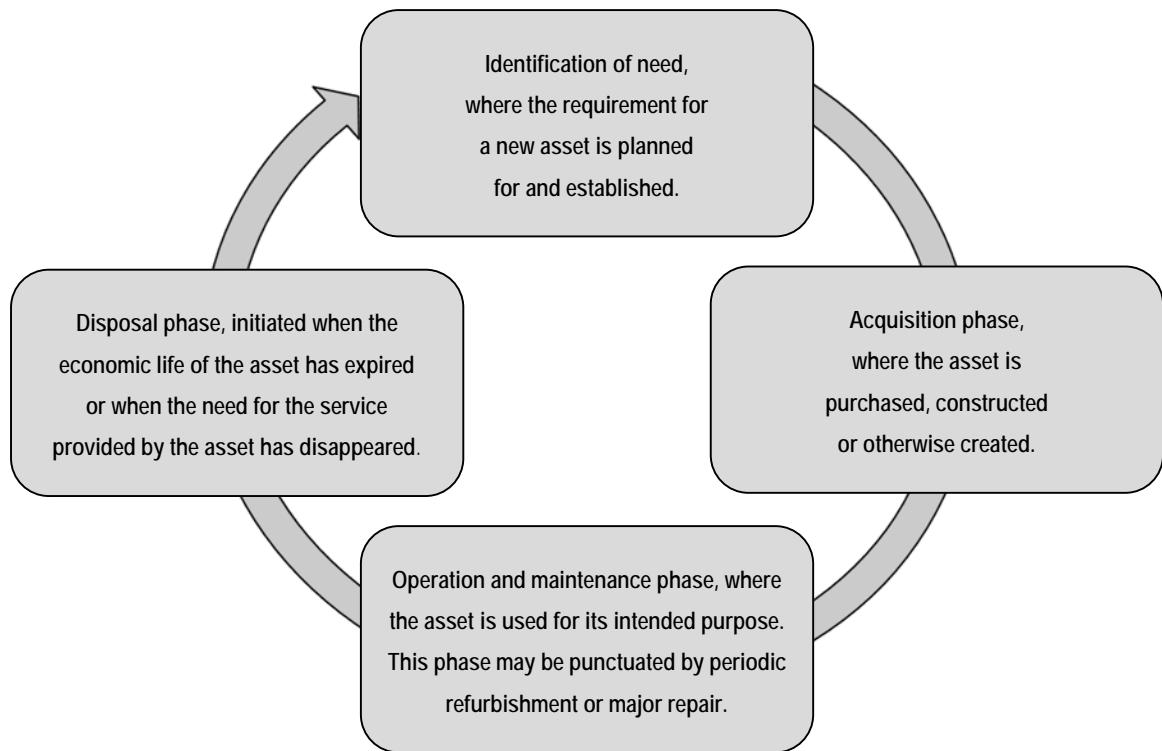
- (a) The compilation of asset registers covering all property, plant and equipment controlled by the Municipality; and
- (b) Accounting treatment for the acquisition, disposal, recording and subsequent measurement of assets.

## **2.2 THE ASSET LIFECYCLE AND MANAGEMENT OF INFRASTRUCTURE ASSETS**

2.2.1 The main challenges associated with managing assets can be characterised as follows –

- (a) Movable assets – controlling acquisition, location, use, and disposal (over a relatively short term lifespan); and
- (b) Immovable assets – life-cycle management (over a relatively long term lifespan).

2.2.2 The phases through which an asset passes during its life are –



2.2.3 The goal of Asset Management of immovable assets is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers. The core principles, addressed in more detail in the Asset Management Policy, are –

- (i) Taking a life-cycle approach;
- (ii) Developing cost-effective management strategies for long- term;
- (iii) Providing a defined level of service and monitoring performance;
- (iv) Understanding and meeting the impact of growth through demand management and infrastructure investment;
- (v) Managing risks associated with asset failures;
- (vi) Sustainable use of physical resources, and
- (vii) Continuous improvement in asset management practices.

2.2.4 Effective management of infrastructure and community facilities is central to the Municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Councillors and officials are custodians on behalf of the public of infrastructure assets, the replacement value of which amounts to several billion Rand.

2.2.5 Key themes of the latest generation of national legislation introduced relating to municipal infrastructure management include –

- (a) Long-term sustainability and risk management;
- (b) Services delivery efficiency and improvement;
- (c) Performance monitoring and accountability;
- (d) Community interaction and transparent processes;
- (e) Priority development of minimum basic services for all, and
- (f) The provision financial support from central government in addressing the needs of the poor.

2.2.6 Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation- for the above objectives to be achieved, the IDP need to be informed by robust, relevant and holistic information relating to the management of the Municipality's infrastructure.

2.2.7 Immovable assets (such as infrastructure and community facilities) are the means by which the Municipality delivers a range of essential municipal services. Consequently the management of such assets is critical to meeting the strategic objectives of the Municipality and in measuring its performance.

2.2.8 There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintenance and renewing existing infrastructure whilst also addressing backlogs in basic services and facing ongoing changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the Municipality, including infrastructure, community services, financial planning, and corporate services .

2.2.9 Accordingly, the asset register adopted by a Municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.

### **3. REGULATORY FRAMEWORK**

#### **3.1 CONSTITUTIONAL AND LEGAL FRAMEWORK**

3.1.1 This policy must comply with all relevant legislative requirements including –

- (a) The Constitution of the Republic of South Africa, 1996;
- (b) The Municipal Systems Act, 2000; and
- (c) The Municipal Finance Management Act, 2003

3.1.2 The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objects –

- (a) Providing democratic and accountable government for local communities;
- (b) Ensuring the provision of services to communities in a sustainable manner;
- (c) Promoting social and economic development;

- (d) Promoting a safe and healthy environment ; and
- (e) Encouraging the involvement of communities and community organisations in matter of local government.

3.1.3 The manner in which a Municipality manages its assets is central to meeting the above challenges. Accordingly the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable. Section 55(2) of the MSA also emphasises the responsibility and accountability of the Municipal Manager, as accounting officer of the Municipality, for all assets of the Municipality.

3.1.4 The Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Municipal Manager by the requirement to ensure that –

- (a) The Municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities;
- (b) The Municipality's assets are valued in accordance with standards of generally recognised accounting practice; and
- (c) The Municipality has and maintains a system of internal control of assets and liabilities.

3.1.5 Requirements regarding asset disposals are set out in sections 14 and 90 of the MFMA while section 75(1)(h) requires that certain information regarding assets disposed of is placed on the Municipality's website. Also developed in terms of the MFMA, the Municipal Asset Transfer Regulations is applicable to all municipalities and municipal entities transferring and disposing of capital assets, or granting a right to use, control or manage capital assets.

- 3.1.6 In addition, the Municipal Supply Chain Management Regulation no. 27636 has specific requirements regarding the disposal of capital assets.
- 3.1.7 The Occupational Health and Safety Act requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its assets safe.

## **3.2 ACCOUNTING STANDARDS**

- 3.2.1 The MFMA requires municipalities to comply with the standards of Generally Recognised Accounting Practice (GRAP), in line with international practice. The following Standards of GRAP significantly impacts on the recognition and measurement of assets within the municipal environment –
  - (a) GRAP 12 – Inventories;
  - (b) GRAP 13 – Leases and more specifically, deemed finance leases;
  - (c) GRAP 16 – Identification of items to be treated as Investment Properties;
  - (d) GRAP 17 – Property Plant and Equipment;
  - (e) GRAP 21 – Impairment of non-cash-generating assets;
  - (f) GRAP 26 – Impairment of cash-generating assets;
  - (g) GRAP 27 – Agriculture;
  - (h) GRAP 31 – Intangible assets and more specifically the treatment of items of software;
  - (i) GRAP 100 – Non-current assets held for sale and Discontinued Operations; and
  - (j) GRAP 103 – Heritage assets

### **3.3 DELEGATIONS AND KEY RESPONSIBILITIES**

- 3.3.1 This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Mayor and the Council and the Municipal Manager.
- 3.3.2 In accordance with the Municipal Finance Management Act, the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/her. The Municipal Manager is therefore accountable for all transactions entered into by his / her designates.
- 3.3.3 The overall responsibility of asset management lies with the Municipal Manager. However, the day to day handling of assets should be the responsibility of all officials in terms of delegated authority reduced in writing.
- 3.3.4 ***Municipal Manager***
  - (a) The Municipal Manager is responsible for the management of the assets of the Municipality, including the safeguarding and the maintenance of those assets.
  - (b) The Municipal Manager shall ensure that –
    - (i) An Asset Management Committee is established, through which all asset processes and procedures will be implemented;
    - (ii) The Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality;

- (iii) The Municipality's assets are valued in accordance with the standards of generally recognised accounting practice (GRAP);
- (iv) The Municipality has and maintains a system of internal control of assets, including an asset register; and
- (v) The Executive Managers and their teams comply with this policy.

(c) As Accounting Officer of the Municipality, the Municipal Manager shall be the principal custodian of all the Municipality's assets, and shall be responsible for ensuring that this policy is effectively applied upon adoption by Council. To this end, the Municipal Manager shall be responsible for the preparation, in consultation with the CFO and Executive Managers, of procedures to effectively and efficiently apply this policy.

### **3.3.5 *Chief Financial Officer***

- (a) The Chief Financial Officer (CFO) is responsible to the Municipal Manager to ensure that the financial investment made in the municipal assets is safeguarded and maintained.
- (b) The CFO shall also ensure, in exercising his / her financial responsibilities, that –
  - (i) Appropriate systems of financial management and internal control are established and carried out for all assets;
  - (ii) Processes are established to ensure the appropriate measurement and valuation of different asset types as required by relevant standards of GRAP;

- (iii) The financial and other resources of the Municipality are utilized effectively, efficiently, economically and transparently;
- (iv) All revenue due to the Municipality related to municipal assets is collected, for example rental income from leasing of immovable assets;
- (v) The systems, procedures and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of effective management;
- (vi) Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- (vii) The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- (viii) The Executive Managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- (ix) All acquisitions of assets are in accordance with the Supply Chain Management Policy; and
- (x) This policy and support procedures are established, maintained and effectively communicated.

(c) The CFO may delegate or otherwise assign responsibilities for performing these functions but will remain accountable for ensuring these activities are performed. The CFO shall be the **fixed asset registrar** of the Municipality, and shall ensure that a complete, accurate

and up-to-date computerised ~~fixed~~ asset register is maintained. No amendments, deletions or additions to the ~~fixed~~ asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

### 3.3.6 ***Executive Managers***

- (a) Executive Managers (the managers directly accountable to the Municipal Manager) shall ensure that –
  - (i) Appropriate systems of physical management and control are established and carried out for all assets;
  - (ii) The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
  - (iii) Procedures are adopted and implemented in conformity with this policy to produce reliable data to be captured into the municipal asset register;
  - (iv) All employees in their Directorates adhere to the approved Financial Asset Management Policy and Procedures;
  - (v) Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
  - (vi) The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;
  - (vii) They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the Municipality's strategic objectives; and

- (viii) They manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.
- (b) The Executive Managers may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

### **3.3.7 *Manager: Assets and Insurance Management***

- (a) The CFO shall delegate the following duties to the Manager: Assets and Insurance Management –
  - (i) Ensuring that council assets are accounted for in accordance with Generally Recognised Accounting Practice (GRAP);
  - (ii) Ensuring that the general ledger is reconciled to the asset register;
  - (iii) Reviewing the reconciliation between the general ledger and the asset register; and
  - (iv) Providing the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the general ledger.
- (b) No amendments to the asset register shall be made other than those authorised by the Manager: Assets and Insurance Management and the Chief Financial Officer.
- (c) The Manager: Assets and Insurance Management, together with the Asset Management Division, shall be responsible for ensuring that –
  - (i) A centralised asset register is implemented and maintained;

- (ii) Physical asset verification is performed annually to verify movable assets on the asset register. The results of this verification must be reported to the CFO (or delegated official);
- (iii) Proper accounting processes and procedures are implemented in conformity with the municipal financial policies and the MFMA to produce reliable data for inclusion in the municipal asset register; and
- (iv) The asset management systems, processes and controls can provide an accurate, reliable and up-to-date account of assets under their control.

(d) The Manager: Assets and Insurance Management may delegate or otherwise assign responsibility for performing these functions, but they will remain accountable for ensuring that these activities are performed.

### **3.3.8 *Manager: Budgets and Cost Accounting***

- (a) The Manager: Budgets and Cost Accounting, together with the Budgeting Division, shall be responsible for ensuring that –
  - (i) A clear description is provided with each project and the appropriate funding source is identified; and
  - (ii) Capital funds are released only after receiving written authority and a clear and concise description of the item to be purchased.

### **3.3.9 *Manager: Expenditure***

- (a) The Manager: Expenditure, together with the Expenditure Division, shall be responsible for ensuring that –

- (i) Invoices authorised for payment are matched to a confirmation of goods or services received before processing such payment.

#### **3.3.10 *Manager: Supply Chain Management***

- (a) The Manager: SCM, together with the SCM Division, shall be responsible for ensuring that –
  - (i) Correct procedures are followed in asset acquisitions as per the Municipality's Supply Chain Management Policy; and
  - (ii) The Bid Specification Committee, Bid Evaluation Committee and Bid Adjudication Committee comply with and be constituted in accordance with the Supply Chain Management Policy.

#### **3.3.11 *Manager: Human Resources***

- (a) The Manager: Human Resources, together with his / her Department, shall be responsible for ensuring that –
  - (i) On termination of service of an employee, the Asset Management Division is informed in writing of the termination and the date of the final working day of the employee, to ensure that verification of assets under the custodianship of the employee is performed.
  - (ii) No monies are paid out on termination of service of an employee without receiving the relevant asset checklist form signed off by the Manager: Assets and Insurance Management.

## **4. POLICY FRAMEWORK**

### **4.1 POLICY OBJECTIVES**

4.1.1 This policy has been designed to provide guidance during the development of an asset management strategy, asset management plans and asset management procedures. Detailed procedures, to ensure that management and employees within the Municipality understand their respective responsibilities and duties, are provided in a separate document.

4.1.2 The objective of this policy is to ensure that assets of the DM are properly managed and accounted for by –

- (a) Applying asset management principles in a consistent manner and in accordance with legal requirements and recognised good practice;
- (b) Compliance with the Council's accounting policies and Generally Recognised Accounting Practices;
- (c) The accurate recording of essential asset information;
- (d) The accurate recording of asset movements;
- (e) Treating the assets correctly in the Municipality's financial statements;
- (f) Providing accurate and meaningful management information;
- (g) Adequate insuring of assets;
- (h) Maintenance of Council's assets;
- (i) Ensuring that management are aware of their responsibilities with regard to assets;
- (j) Setting out the standards of management, recording and internal controls so as to safeguard the assets against inappropriate utilisation or loss; and
- (k) Exercising strict physical controls over all assets.

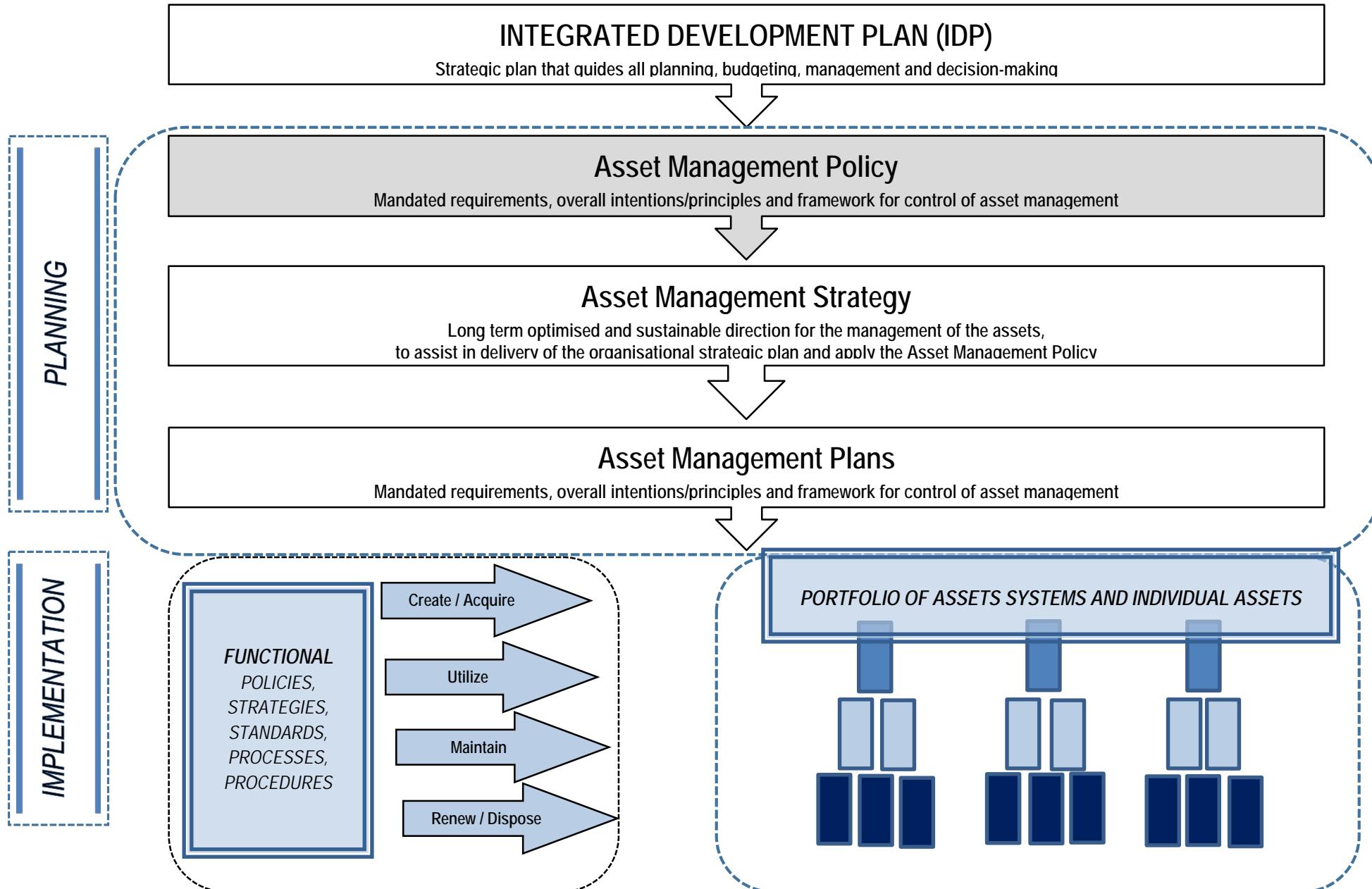
## 4.2 POLICY FORMAT

4.2.1 The policy approach has mainly been to **firstly** focus on the financial treatment of assets, which needs to be consistent across both the movable and immovable assets. The Asset Management Policy sets out the overall intentions, principles and framework for control of asset management.

4.2.2 The following figures give an overview to the format of presentation of this policy document, and how it links to separate documents that provide the strategy, plans and procedures.

### ASSET MANAGEMENT POLICY

- **DEFINITIONS AND RULES:** Extracts from the accounting standards and their interpretation (including general information and best practice) for application in the municipality
- **POLICY STATEMENT:** A statement that reflects the specific policy adopted by the municipality, in line with the applicable accounting standards or best practice
- **RESPONSIBILITIES:** Allocation of key responsibility areas to give effect to the adopted policy



#### **4.3 RELATIONSHIP WITH OTHER POLICIES**

4.3.1 This policy needs to be read in conjunction with other relevant adopted policies of the Municipality, including the following –

- (a) Asset Management Policy: Defining the municipality's vision and intent regarding all aspects of asset management;
- (b) Delegation of Powers (Delegations Register): Identifying the processes surrounding the establishment of delegated authority;
- (c) SCM Policy: Regulating all processes and procedures relating to acquisitions;
- (d) Budget Policy: The processes to be followed during the budget process as well as pre-determined prioritisation methodology;
- (e) Accounting Policies: Governed by the Accounting Standards, the accounting policies determine the basis of recognition, measurement and recording of all transactions;
- (f) Asset Transfer Policy;
- (g) Fleet Management Policy; and
- (h) Insurance Management Policy.

4.3.2 This policy does not overrule the requirement to comply with other policies. The CFO will provide guidance or adjust this police where an apparent conflict exists between this policy and other policies, legislation or regulations.

#### **4.4 APPROVAL AND EFFECTIVE DATE**

4.4.1 The CFO is responsible for the submission of this document to Council to consider its adoption after consultation with the Municipal Manager. The effective date for implementation of the policy is 1 July 2014.

#### **4.5 POLICY IMPLEMENTATION**

4.5.1 Detailed procedures shall be prepared and adopted by the Municipal Manager, in consultation with the CFO and Directors, to give effect to this policy.

#### **4.6 POLICY AMENDMENT**

4.6.1 This policy will be updated whenever legislative or accounting standard amendments significantly change the requirements pertaining to asset management in general and the administration of Council's assets. Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the Municipal Manager in consultation with the CFO and respective Executive Managers. The recommendations of the CFO shall be considered for adoption by Council.

### **5. POLICY FOR ASSET ACCOUNTING**

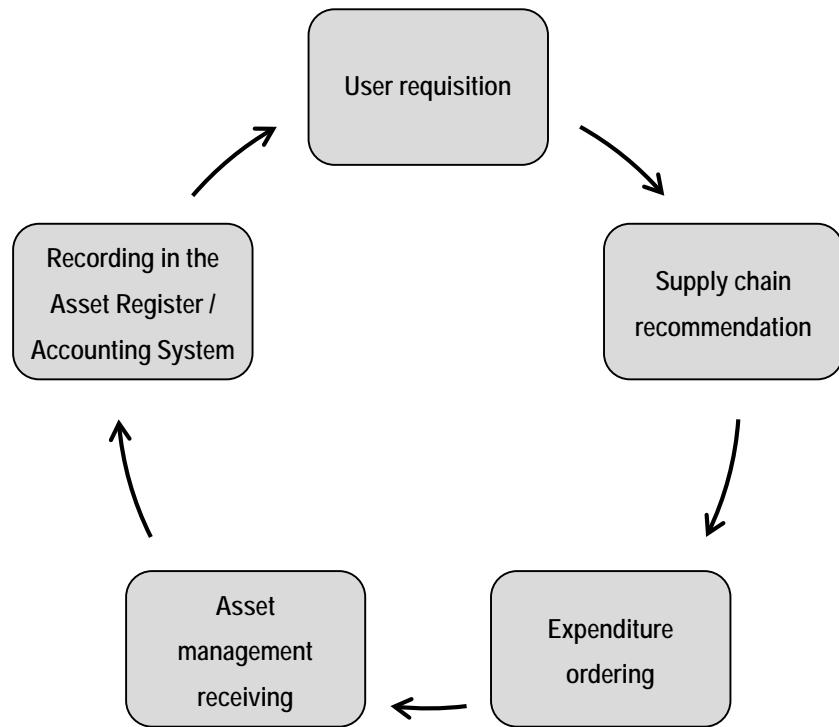
#### **5.1 ASSET ACQUISITION**

5.1.1 ***Definitions and rules***

(a) Acquisition

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing. The date of acquisition of assets is

deemed to be the time when control or legal title passes to the Municipality. The *Process Flow* during asset acquisition can be illustrated as follows –



(b) Creation of new infrastructure assets

Creation of new infrastructure assets refers to the purchase and / or construction of totally new assets that has not been in the control or ownership of the Municipality in the past.

(c) Self-constructed assets

Self-constructed assets relate to all assets constructed by the Municipality itself or another party on instructions from the Municipality.

(d) Donated assets

A donated asset is an item that has been given to the Municipality by a third party in government or outside government without paying or actual or implied exchange.

5.1.2 ***Policy Statement***

- (a) Should the Municipality decide to acquire a capital asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset –
  - (i) The purpose for which the asset is required is in keeping with the objectives of the Municipality and will provide significant, direct and tangible benefit to it;
  - (ii) The asset meets the definition of a capital asset (as defined in GRAP 16, GRAP 17, GRAP 27, GRAP 31 and GRAP 103);
  - (iii) The asset has been budgeted for;
  - (iv) The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
  - (v) The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
  - (vi) The asset is appropriate to the task or requirement and is cost-effective over the life of the asset;
  - (vii) The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;

- (viii) Space and other necessary facilities to accommodate the asset are in place; and
- (ix) The most suitable and appropriate type, brand, model, etc. has been selected.

(b) The cost of all ***new infrastructure facilities*** (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into the component parts, each of which have an appropriate useful life.

(c) ***Work in progress*** shall be flagged (indicated) as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management. Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

(d) All assets that can be classified as assets and that are ***constructed by the Municipality*** should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged (indicated) as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management.

(e) ***Donated assets*** shall be valued at fair value, reflected in the asset register, and depreciated as normal assets. All donated assets shall be approved by the Municipal Manager and ratified by Council prior to acceptance.

### 5.1.3 ***Responsibilities***

- (a) Before a capital project is included in the budget for approval, the Executive Director of the relevant department must demonstrate that they have considered –
  - (i) The projected cost over all the financial years until the project is operational;
  - (ii) The future operational costs and revenue on the project, including tax and tariff implications;
  - (iii) The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
  - (iv) The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation; and
  - (v) The inclusion of this capital project in the integrated development plan and future budgets.
- (b) The CFO is accountable to ensure the Executive Manager of the relevant Directorate receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.
- (c) Executive Managers shall ensure that details of all capital work in progress is completed and submitted to the Manager: Assets and Insurance Management (or delegated official).
- (d) Each Executive Manager shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the asset register.

- (e) Each Executive Manager shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.
- (f) Each Executive Manager shall notify the Manager: Assets and Insurance Management (or delegated official) when the works have been completed and separate componentized assets can be recognised on the asset register (unbundled).
- (g) On completion of the infrastructure project, the Executive Managers shall ensure that all costs (both direct and indirect) associated with the construction of the assets be summed and be capitalised to the assets that make up the project.
- (h) Executive Managers must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the Municipality.
- (i) Executive Managers must ensure that approval is obtained from the Municipal Manager prior to acceptance of a donated assets.

## 5.2 RECOGNITION

### 5.2.1 *Definitions and Rules*

- (a) Assets

An asset is defined as a resource controlled by an entity as a result of past events and from which future economic benefits or service potential associated with the item will flow to the entity.

(b) Control

An item is not recognised as an asset unless the entity has the capacity to control the service potential or future economic benefit of the asset, is able to deny or regulate access of that benefit, and has the ability to secure the future economic benefit of that asset. Legal title and physical possession are good indicators of control but are not infallible.

(c) Past transactions or events

Assets are only recognised from the point when some event or transaction transferred control to an entity.

(d) Probability of the flow of benefits or service potential

The degree of certainty that any economic benefits or service potential associated with an item will flow to the Municipality is based on the judgement. The Municipal Manager shall exercise such judgement on behalf of the Municipality, in consultation with the CFO and respective Executive Manager.

(e) Reliable measurement

Items are recognised that possess a cost or fair value that can be reliably measured in terms of this policy.

(f) Economic benefits

Economic benefits are derived from assets that generate net cash inflow.

(g) Service Potential

An asset has service potential if it has the capacity, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the Municipality, such as the provision of services.

(h) Non-current asset

A “non-current asset” is an asset with an expected useful life of greater than 12 months.

(i) Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, for rentals to other, or for administrative purposes; and are expected to be used during more than one period. This includes items necessary for environment or safety reasons to leverage the economic benefits or service potential from other assets. Insignificant items may be aggregated. Property, plant and equipment are broken down into groups of assets of a similar nature or function in the Municipality’s operations for the purpose of disclosure in the financial statements.

(j) Immovable PPE

Immovable assets are structures such as buildings and roads. A plant that is built-in to the structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair).

(k) Heritage Assets

If the Municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

(l) Investment Property

Investment property is defined as property (land and / or a building, or part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or capitals appreciation, or both (rather than for use in the production or supply of goods or services or for administration purpose or sale in the ordinary course of operations). Examples of investment property are office parks, shopping centres or housing financed and managed by a Municipality (or jointly with other parties). There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as investment property until such time as the land has been determined.

(m) Intangible Assets

Intangible assets are defined as identifiable non-monetary assets without physical substances. Examples are licenses/rights, (such as water licenses), servitudes and software.

(n) Spares and standby equipment

Spares and materials used on a regular basis in the ordinary course of operations are usually carried as inventory (i.e. they are not usually considered assets) and are expensed when consumed. Spares that constitute an entire or significant portion of a component type, or a specific component, defined in the immovable PPE asset hierarchy are

considered capital spare parts and are recognised as an item of PPE immediately that they are available for use and in a location and condition necessary for it to be capable of operating in a manner intended by management. Tangible items that are used in the production or supply of goods or services on an irregular basis (such as standby equipment) are recognised as items of PPE.

(o) Leased assets

A lease is an agreement whereby the lessor conveys to the lessee (in this case, the Municipality) the right to use an asset for an agreed period of time in return for a payment. Leases are categorised into finance and operating leases. A finance lease transfers substantially all risks and rewards incident to ownership of an asset, even though the title may not eventually be transferred (substance over form). Where the risks and rewards of ownership of the assets are substantially transferred to the Municipality, the lease is regarded as a finance lease recognised by the Municipality. Where there is no substantial transfer of risks and rewards of ownership to the Municipality, the lease is considered an operating lease and payment are expensed in the income statement on a systematic basis (straight-line basis over the lease term).

(p) Asset custodian

The department that controls an asset, as well as the individual (asset custodian) that is responsible for the operations associated with such asset in the department, is identified by the respective Executive Manager, recorded, and communicated on recognition of the asset.

(q) Capitalisation Threshold

- (i) The capitalisation threshold is a policy decision of the Municipality and is the value above which assets are capitalised and reported in the statement of financial position as tangible or intangible capital assets as opposed to being expensed in the year of acquisition (accelerated depreciation). As a result, the threshold has a significant impact on the size of the asset register and the complexity of asset management. However the capitalisation threshold is regarded as a deviation from GRAP standards and should be determined annually by comparison against materiality and must be determined at a level that will ensure that the Municipality does not deviate materially from the requirements of GRAP 17.
- (ii) The capitalisation threshold should not be applied to the components of an asset, but should be applied to the value of the capital asset as a whole. If the threshold is applied at component level, the asset register would be incomplete in the sense that an asset recorded as such would not be a complete asset. The Municipality has taken the following into account when considering a capitalisation threshold –
  - (aa) The impact of the threshold on the financial statements and the decisions/assessments the users of the financial statement may or may not make;
  - (bb) The cost of maintaining financial and management information on assets when the threshold is very low;
  - (cc) The impact on comparability and benchmarking cost of services may be difficult if different capitalisation thresholds are applied; and
  - (dd) The size of the Municipality or the size of its service areas when setting a capitalisation threshold level. Municipalities vary greatly in size, so what is relevant to one may be immaterial to another.

#### **5.2.2 Policy statement**

- (a) A capital asset shall be recognised as an asset in the financial and asset records when –
  - (i) It is probable that future economic benefits or potential service delivery associated with the item will flow to the Municipality;
  - (ii) The cost or fair value of the item to the Municipality can be measured reliably;
  - (iii) The cost is above the municipal capitalisation threshold (if any); and
  - (iv) The item is expected to be used during more than one financial year.
- (b) The Municipality shall recognise all assets existing at the time of adoption of this policy and the development of new, upgraded and renewed assets on an on-going basis. Such assets shall be capitalised in compliance with prevailing accounting standards.
- (c) The capitalisation threshold is set at R 300 (three hundred rand), (excluding VAT where applicable), but the application thereof will be determined annually by the Municipality. Assets with a cost not exceeding the capitalisation threshold shall be expensed in the statement of financial performance and not be capitalised. These assets shall not be depreciated or tested for impairment and shall not generate any further transactions.
- (d) However, the Municipality (Municipal Manager or delegated official) can determine with an internal memorandum which assets under the threshold can be classified as capital assets. In addition, certain types of assets are not expected to have operating lives exceeding one year, and such assets shall not be capitalised, while certain assets are listed

in sub-registers, with a reference thereto in the main asset register – these types of assets are listed in ***Annexures B and C***.

### **5.2.3 *Responsibilities***

- (a) The CFO, in consultation with the Municipal Manager and Executive Managers, shall determine effective procedures for the recognition of existing and new assets.
- (b) Every Executive Manager shall ensure that all assets under their control are correctly recognised as assets.
- (c) The CFO shall keep a lease register with the following minimum information - name of the lessor, description of the asset, fair value of the asset at inception of the lease, lease commencement date, lease termination date, economic useful life of the asset, lease payments, and any restrictions in the lease agreement.
- (d) Every Executive Manager shall ensure that all assets under their control are correctly capitalised and the capitalisation threshold applied as and when applicable.

## **5.3 CLASSIFICATION OF ASSETS**

### **5.3.1 *Definitions and rules***

- (a) Asset Categories

The accounting categories of assets are as follows –

- (i) Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the Municipality's operations, that is shown as a single class for the purposes of disclosure in the financial statements);

- (ii) Investment property;
- (iii) Intangible assets;
- (iv) Heritage assets;
- (v) Biological assets; and
- (vi) Land Inventories (land or buildings owned or acquired with the intention of selling or distributing such property in the ordinary course of business).

(b) Class of PPE

A class of PPE is defined as a group of assets of a similar nature or function in the Municipality's operations. The total balance of each class of assets is disclosed in the notes to the financial statement.

(c) PPE asset hierarchy

An assets hierarchy is adopted for PPE which enables separate accounting of parts (or components) of the asset that are considered significant to the Municipality from a financial point of view, and for other reasons determined by the Municipality including risk management (in other words, taking into account the criticality of components) and alignment with the strategy adopted by the Municipality in asset renewal (for example the extent of replacement or rehabilitation at the end of life). In addition, the Municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and component.

(d) PPE Land

PPE Land comprises any land held by the Municipality to be used in the production or supply of goods or for administrative purposes. The intention is not to develop or sell the property in the normal course of business. Land held for a currently undetermined future use, should not be included in PPE, but should be included in Investment Properties.

(e) PPE Buildings, structures and facilities

- (i) Buildings assets are buildings that are used for municipal operations such as operational buildings held by the Municipality to be used in the production or supply of goods or for administrative purposes and rental stock or housing not held for capital gain, as well as community halls and other municipal buildings utilised for the general well-being of the Municipality.
- (ii) Housing Assets have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock or selling stock not held for capital gain.
- (iii) Other structures and facilities assets include other municipal structures and facilities such as parks, gardens, cemeteries, as well as recreational facilities.

(f) PPE Infrastructure

Infrastructure assets are immovable assets which are part of a network of similar assets. Infrastructure Assets comprise assets used for the delivery of infrastructure-based services. At DM these assets include Electricity networks, Water Networks, Sewerage (Sanitation) Networks, Roads (including storm water assets) and Solid Waste (Landfill site).

(g) Component approach

- (i) The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording. The key considerations in determining what should become a separately depreciable part (component) are:
  - (aa) Significant cost; and
  - (bb) Considerable difference in useful life.
- (ii) If the value of a part of the asset is significant (i.e. material) compared to the value of the asset as a whole and/or has a useful life that is considerably different to the useful life of the asset a whole, it should be recognised as a separately depreciable part (component).

(h) Level of detail of componentisation

- (i) For the technical management of infrastructure, the most effective level of management is at the maintenance item level. It is at this level that work orders can be executed and data collected. This data is useful for maintenance analysis to improve infrastructure management decision making. This level in most cases coincides with the level that means the accounting criteria of different effective lives and materiality. However, the collection of data at this level of detail can be very

costly when dealing with assets that are very numerous in nature e.g. street signs, street lights, etc. It is therefore prudent to balance the value of the information with the cost of collecting the data. The different levels of detail are shown below –

- (aa) Level 1: Service level (e.g. Drakenstein **Roads Infrastructure**);
- (bb) Level 2: Network level (e.g. **Paarl Roads** Network);
- (cc) Level 3: Facility level (e.g. Paarl **Bergrivier Boulevard**);
- (dd) Level 4: Maintenance item level (e.g. **Traffic sign** in Paarl Bergrivier Boulevard); and
- (ee) Level 5: Component level (e.g. **U-bolt** on Traffic sign in Paarl Bergrivier Boulevard).

- (ii) The preferred level of detail for the accounting and technical management of infrastructure is level 4 above.
- (iii) The infrastructure asset register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the Municipality.

(i) PPE Housing assets

*Housing Assets* have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock or selling stock not held for capital gain.

(j) PPE – Other assets

Other assets are ordinary operational assets such as operational buildings, vehicles, equipment as well as furniture and fittings.

(k) Investment Property

Investment property is defined as property (land and/or a building, or a part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or for capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operation). Examples of investment property are office parks, shopping centres or housing financed and managed by a Municipality (or jointly with other parties). There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as investment property until such time as the use of the land has been determined.

(l) Intangible Assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Examples are licenses/rights, (such as water licenses), servitudes and software.

(m) Heritage Assets

(i) Heritage assets are assets of cultural, historic or environmental significance, such as monuments, nature reserves, and works of art. Some heritage assets have more than one purpose, e.g. a historical building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. The Municipality needs to determine whether the significant portion of the asset meets the definition of a heritage asset. The entity must use its judgement to make such assessment. The asset should be accounted for as a heritage asset if, and only, the definition of a heritage asset is met, and only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. If a significant portion is used for production, administrative purposes or supply of

services or goods, the asset shall be accounted for in accordance with GRAP 17 on PPE.

(ii) In the case of an asset not appearing in the adopted classification structure, a classification that is most closely comparable to the asset in question is used.

(n) Biological assets

Biological Assets are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. Managed agricultural activity such as raising livestock, forestry, annual or perennial cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the Municipality from its ownership or control of the asset.

(o) Land Inventories

Inventory Property comprises any land owned or acquired by the Municipality with the intention of selling such property in the ordinary course of business, or any land owned or acquired by the Municipality with the intention of developing such property for the purpose of selling or distributing it in the ordinary course of business.

### 5.3.2 **Policy Statement**

(a) The accounting groups specified by GRAP and asset classes as set out below shall be adhered to as a minimum standard. An extended asset classification, as set out in **Annexure A**, has been adopted.

Accounting Group	Asset Class
Property, plant and equipment	Land
	Buildings, structures and facilities
	<ul style="list-style-type: none"> <li>• <i>Buildings</i></li> </ul>
	<ul style="list-style-type: none"> <li>• <i>Cemeteries, parks and gardens</i></li> </ul>
	<ul style="list-style-type: none"> <li>• <i>Recreational and sports facilities</i></li> </ul>
	<ul style="list-style-type: none"> <li>• <i>Housing assets (rental stock or housing stock not held for capital gain)</i></li> </ul>
	Infrastructure (assets which are part of a network of similar assets)
Heritage assets	Other assets (ordinary operational assets)
	Statues, monuments and memorials
	Historic buildings and sites
	Works of art, regalia and collections
Intangible Assets	Conservation areas and nature reserves
	Capitalised development cost
	Masterfile planning
	Computer software and systems
Investment property	Licences and rights
	Commercial property (market related rentals charged)
	Residential property (market related rentals charged)
	Land held for appreciation or development purposes
	Land with undetermined use

(b) An extended asset classification, as set out in **Annexure A**, has been adopted, and asset hierarchies shall be progressively applied for each of the asset classes, separately identifying items at component level that are significant from a financial or risk perspective, and, where applicable, grouping items that are relatively insignificant.

(c) **PPE – Library Books**

(i) The books in a library book collection shall be documented and recorded in the library computer systems. The library computer system shall be well maintained and can be relied upon to provide the basis for the carrying value of the library book collection.

(ii) Where exact costs are not available, the value of the library book collection shall be determined by applying a standard rate to the quantities of different library books of different ages. Where library books of a particular value or importance are kept in the library these shall be separately recorded and valued. An identification tag shall be attached to these books to indicate this status.

(d) **Assets Treated as Inventory**

(i) Any land or buildings owned or acquired by the Municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the Municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the Municipality's statement of financial position.

(ii) Such inventories shall, however, be recorded in an inventory register in the same manner as other assets.

(e) Investment Properties

(i) Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE. If the Council of the Municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

(ii) The following types of Municipal Property **will be classified** as Investment Property –

(aa) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations which council intends to sell at a beneficial time in the future.

(bb) Land held for a currently undetermined future use.

(cc) A building owned by the Municipality (or held by the Municipality under a finance lease) and leased out under one or more operating leases on a commercial basis.

(dd) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

(ee) Property that is being constructed or developed for future use as investment property.

(iii) The following types of Municipal Property **will not be classified** as Investment Property –

(aa) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. This property is treated as inventory.

- (bb) Property being constructed or developed on behalf of the Provincial Government Housing Department.
- (cc) Owner-occupied property which is defined as property which is held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes as per definition criteria of GRAP 17 which includes all council buildings used for administration purposes.
- (dd) Property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) are also regarded to be owner-occupied property.
- (ee) Property that is leased to another entity under a finance lease.
- (ff) Property held to provide a social service and which also generates cash inflows. For example if council holds housing stock (letting units) used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held.
- (gg) Property held by council for strategic purposes or to meet service delivery objectives rather than to earn rental or for capital appreciation.
- (hh) Where council has properties that are used both for administrative and commercial purposes and part of the properties cannot be sold separately these properties will not be classified as investment properties.

### **5.3.3 *Responsibilities***

- (a) The CFO shall ensure that the classification of assets adopted by the Municipality complies with the statutory requirements.
- (b) The CFO shall ensure that the classifications indicated in **Annexure A** are applied, and in the case of an item of assets not appearing in the annexure, the classification applicable to the asset most closely comparable.
- (c) When required, the CFO shall consult with the Executive Managers responsible for assets to ensure an effective and appropriate asset hierarchy is determined for each class of assets to component level.
- (d) Every Executive Manager shall ensure that all assets under their control are classified correctly and shall advise the CFO when assets should be re-classified.

## 5.4 IDENTIFICATION

### 5.4.1 ***Definition and Rules***

- (a) Asset identification system

An asset identification system is a means to uniquely identify each asset in the Municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means of an accurate description of their physical location.

(b) Policy Statement

An asset identification system shall be operated and applied in conjunction with an asset register. As far as practicable, every individual asset shall have a unique identification number - in the case of movable assets, if this identification number is not a barcode number due to impracticability of affixing such a tag to the asset, the serial number of the asset will be used as the unique identification number.

(c) Responsibilities

- (i) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Managers, shall develop and implement an asset identification system to meet the policy objective.
- (ii) Executive Managers shall ensure that all the assets under their control are correctly barcoded or otherwise identifiable in the asset register.

## 5.5 ASSET REGISTER

### 5.5.1 *Definitions and Rules*

(a) Asset Register

An asset register is a database with information relating to each asset. The asset register is structured in line with the adopted classification structure. The scope of data in the register is sufficient to facilitate the application of the respective accounting standard for each of the asset classes, and the strategic and operational asset management needs of the Municipality.

(b) Updating data in the Asset Register

The asset register is updated by the Asset Officers only when authorised and instructed to do so by the Manager: Assets and Insurance Management.

(c) Policy Statement

- (i) An asset register shall be established and maintained to provide the data required to apply the applicable accounting standards, as well as other data considered by the Municipality to be necessary to support strategic asset management planning and operational management needs. The asset register shall reflect at least the following information –
  - (aa) A brief but meaningful description of each asset;
  - (bb) The date on which the asset was acquired or commissioned into use;
  - (cc) The location of the asset;
  - (dd) The responsible department(s) or vote(s) within which the assets will be used;
  - (ee) The title deed number, in the case of property;
  - (ff) The stand number, in the case of property;
  - (gg) Where applicable, the identification number;
  - (hh) The initial measurement basis used (Cost or Fair Value);
  - (ii) The original estimated useful life;
  - (jj) The revised useful life;
  - (kk) The residual value;
  - (ll) The original cost, or the revalued amount or the fair value if no costs are available;
  - (mm) The (last) revaluation date of the assets subject to revaluation;
  - (nn) The revalued value of such assets;
  - (oo) Accumulated depreciation to date;
  - (pp) The depreciation charge for the current financial year;
  - (qq) The carrying value of the asset;

- (rr) The method and rate of depreciation;
- (ss) Impairment losses incurred during the financial year (and the reversal of such losses, where applicable);
- (tt) Increases or the decreases resulting from revaluations (if applicable);
- (uu) The source of financing;
- (vv) Condition of the asset;
- (xx) The date on which the asset is disposed of;
- (yy) The disposal price (if any); and
- (zz) The date on which the asset is retired from use, if not disposed of.

(ii) The asset register shall be updated and reconciled to the general ledger on a regular basis.

(d) Responsibilities

- (i) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Managers, shall define the format of the asset register, and shall ensure that the format complies with the prevailing accounting standards.
- (ii) Executive Managers shall provide the CFO with the data required to establish and update the asset register in a timely fashion.
- (iii) The CFO shall establish procedures to control the completeness and integrity of the asset register data, and ensure proper application of the control procedures.

## 5.6 MEASUREMENT AT RECOGNITION

### 5.6.1 ***Definitions and rules***

#### (a) Calculation of initial cost price

- (i) Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the Municipality is not allowed to claim input VAT paid on acquisition of such assets. In such an instance, the Municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:
  - (aa) Costs of employee benefits (as defined GRAP 25) arising directly from the construction or acquisition of the item of the capital asset;
  - (bb) The cost of site preparation;
  - (cc) Initial delivery and handling costs;
  - (dd) Installation costs;
  - (ee) Professional fees such as for architects and engineers;
  - (ff) The estimated cost of dismantling and removing the asset and restoring the site; and
  - (gg) Interest costs when incurred on a qualifying asset in terms of GRAP 5.
- (ii) When payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

#### (b) Input Tax (VAT)

(i) In order for a Municipality to claim input tax, goods and services must be acquired by the Municipality for the purpose of consumption, use or supply in the course of making taxable supplies. It follows that a Municipality may not claim input tax where goods or services are acquired for the purposes of making exempt or other non-taxable supplies. The following are denied to be claimed as input tax –

- (aa) Entertainment;
- (bb) Motor Vehicles as defined in the VAT Act 89 of 1991; and
- (cc) Goods and services it acquired as an agent on behalf of someone else.

(c) Measurement at recognition of PPE

An item of PPE that qualifies for recognition is measured at cost. Where an asset is required at no or nominal cost (for example in the case of donated or developer-created assets), its cost is deemed to be its fair value at the date of acquisition. In cases where it is impracticable to establish the cost of an item of PPE, such as on recognising PPE for which there are no records, or records cannot be linked to specific assets, its cost is deemed to be its fair value.

(d) Measurement at recognition of heritage assets

Heritage assets will be measured at cost at initial recognition. However, where a heritage asset was acquired through a non-exchange transaction its cost is its fair value at the date of acquisition.

(e) Measurement at recognition of investment property

Investment property will be measured at cost including transaction cost at initial recognition. However, where an investment property was acquired through a non-exchange transaction (i.e. where the investment property was acquired for no or nominal value), its cost is its fair value at the date of acquisition.

(f) Measurement at recognition of intangible assets

Intangible assets will be measured at cost at initial recognition. Where assets are acquired for no or nominal consideration, the cost is deemed to equal the fair value of the asset on the date acquired.

(g) Fair Value

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market values obtained from a qualified valuer can be used where there is an active and liquid market for asset (for example - land and some types of plant and equipment). In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciation replacement cost (DRC) approach may be used. Assessment of fair values is to be made by a professional with qualifications and appropriate knowledge and experience in valuation of the respective assets.

(h) Cost of an item of infrastructure

The capitalisation value comprises (i) purchase price and (ii) any directly attributable cost necessary to bring the asset to its location and condition necessary for it to be operating in the manner intended by the Municipality, plus (iii) an initial estimate of the costs of dismantling

and removing the item and restoring the site on which it is located. VAT is excluded (unless the Municipality is not allowed to claim input VAT paid on purchase of such assets - in such an instance, the Municipality should capitalise the cost of the asset together with VAT).

(i) Cost associated with heritage assets

Costs incurred to enhance or restore a heritage asset to preserve its indefinite useful life should be capitalised as part of the cost of the asset. Such costs should be recognised in the carrying amount of the heritage asset as incurred.

(j) Directly Attributable Costs

(i) Directly attributable costs are defined as –

- (aa) Cost of employee benefits arising directly from the construction or acquisition of the item;
- (bb) Costs of site preparation;
- (cc) Initial delivery and handling;
- (dd) Installation and assembly costs, cost of testing whether the asset is functioning properly, after deduction the net proceeds from selling any item produced while bringing the asset to that location and condition;
- (ee) Commissioning (cost of testing the asset to see if the asset is functioning properly, after deducting the net proceeds from selling an item produced while bringing the asset to its current condition and location); and
- (ff) Professional fees (for example associated with design fees, supervision, and environmental impact assessments) (in the case of all asset classes).

(k) Changes in the existing decommissioning costs or restoration costs included in the costs of an item

- (i) Changes in the measurement of an existing decommissioning cost or restoration cost as a result of changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, should be treated as follows –
  - (aa) If the cost model is used –
    - (i) Changes in the liability shall be added to or deducted from the cost of the related asset;
    - (ii) If the amount deducted from the cost of the asset exceeds the carrying amount of the asset, the excess shall be recognised immediately in surplus or deficit; and / or
    - (iii) If the adjustment results in an additional to the cost of an asset, the Municipality should consider whether this is an indication that the carrying amount may not be recoverable. In this case the Municipality should test the asset for impairment.
  - (bb) If the revaluation model is used –
    - (i) A decrease in the liability shall be credited to the revaluation surplus, except that it shall be recognised in the surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in the surplus or deficit;
    - (ii) An increase in the liability shall be recognised in surplus or deficit, except that it shall be debited to the revaluation surplus to the extent that any credit balance may exist in the revaluation surplus in respect of asset;
    - (iii) If the decrease in liability exceeds the carrying amount that would have recognised if the asset has been carried under the cost model, the excess shall be recognised immediately in the surplus or deficit; and / or

(iv) If the change in liability is an indication the asset may have to be re-valued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation shall be taken into account in determining the amounts to be taken to surplus or deficit and net assets as discussed above. If a revaluation is necessary, all assets of that class shall be revalued.

(l) Exchanges of Assets

In cases where assets are exchanged, the cost is deemed to be fair value of the acquired asset and the disposed asset is de-recognised. If the acquired asset is not measured at its fair value, its cost price will be the carrying amount of the asset given up.

(m) Finance Leases

A finance lease is recognised by the Municipality (the lessee) at the commencement of a lease as an asset and liability in the statement of financial position at equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease contract, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct cost of the lessee is added to the amount recognised as an asset.

(n) Depreciated replacement cost

(i) The depreciated replacement cost (DRC) approach requires information on the expected useful life (EUL), residual value

(RV), current replacement cost (CRC), and remaining useful life (RUL) of each of the asset components. The CRC is the product of a unit rate and the extent of the component and represents the cost of replacing the asset, and in cases where the existing asset is obsolete, the replacement with a modern equivalent. The depreciable portion cost (DRC) is established by proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life.

Accordingly, the following formula is used –

$$\text{DRC} = (\text{CRC}-\text{RC}) \times \text{RUL/EUL} + \text{RV}$$

(ii) Capital unit costs vary from site to site and provision is made for site specific influencing factors (e.g. topography). Capital unit costs are also influenced by macro-economic driving forces such as "supply-and-demand", economy of scale, financial markets and availability of contractors, and the impact of these factors are reflected in the capital unit rates where applicable. Adjustments of assets for escalation to the valuation date are applied.

(o) Self-constructed PPE

Self-constructed assets relate to all assets constructed by the Municipality itself or another party on instructions from the Municipality. All assets that can be classified as assets and that are constructed by the Municipality should be recorded in the asset register and each component that is part of this asset should be depreciated over its estimated useful life for that category of asset. Proper records are kept such that all costs associated with the construction of these are completely and accurately accounted for as capital under construction, and upon completion of the asset, all costs (both direct and indirect)

associated with the construction of the asset are summed and capitalised as an asset.

(p) Construction of future investment property

If property is developed for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use- then it shall be classified as an investment property.

(q) Borrowing costs

(i) Borrowing costs are interest and other costs incurred by the Municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings; amortisation of premiums or discounts associated with such borrowings; amortisation of ancillary costs incurred in connection with the arrangement of borrowings; finance charges in respect of finance leases and foreign exchange differences arising from foreign borrowings when these are regarded as an adjustment to interest costs. Borrowing costs shall be capitalised if related to construction of a qualifying asset (one that necessarily takes a substantial period of time to get ready for its intended use or sale) and external funding is sourced to fund the project, i.e. - interest during construction.

(ii) In the following cases it is inappropriate to capitalise borrowing costs –

(aa) It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirement of the Municipality directly to the nature of the expenditure to be funded i.e. capital or current. In such case, the Municipality shall expense

those borrowing costs related to a qualifying asset directly to the statement of financial performance.

(bb) In exceptional cases the Municipality is allowed to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. It may be difficult for the Municipality to identify a direct relationship between an asset and borrowing costs incurred because the financial activity is controlled centrally and it will not always be possible to keep track of the specific borrowing costs which should be allocated to the qualifying asset. As a reasonable effort and cost may outweigh the benefit of presenting the information, making it inappropriate to capitalise the borrowing cost.

(r) Deferred payment

The cost of an asset is the cash equivalent at the recognition date. If the payment of the cost price is deferred beyond normal credit terms, the difference between the cash price equivalent (the total cost price is discounted to the asset's present value as at the transaction date) and the total payment is recognised as an interest expense over the period of credit unless such interest is recognised in the carrying value of the asset in accordance with the allowed alternative treatment in GRAP 5 on Borrowing Costs.

#### **5.6.2 Policy Statement**

- (a) An asset that qualifies for recognition shall be capitalised at cost. Interest on deferred payment will be expensed.
- (b) In cases where complete cost data is not available or cannot be reliably linked to specific assets, the fair value of assets shall be adopted on the following basis –

- (i) **PPE infrastructure, PPE structures and other facilities, PPE other assets** (movable and immovable) - depreciated replacement cost;
- (ii) **PPE land and PPE buildings** - values from the valuation roll (or in the event that such is not available, market value);
- (iii) **Heritage assets** - market value (or in the event that such is not available, no value shall be indicated, but the existence of such heritage assets shall be disclosed by means of an appropriate note); if the cost or value of heritage assets cannot be measured reliably, a description of the nature of the asset and the fact that the cost cannot be measured reliably should be disclosed;
- (iv) **Investment property** - values from the valuation roll (or in the event that such is not available, market value); and
- (v) **Intangible assets** - depreciated replacement cost.

### **5.6.3 Responsibilities**

- (a) The CFO, in consultation with the Municipal Manager and Executive Managers, shall determine effective procedures for the capitalisation of assets on recognition.
- (b) Every Executive Manager shall ensure that all assets under their control are correctly capitalised.
- (c) Every Executive Manager shall advise the CFO of any deferred payments from the Municipality, providing the relevant details of such.

## **5.7 MEASUREMENT AFTER RECOGNITION**

### **5.7.1 Definitions and Rules**

(a) Options

- (i) Accounting standards allow measurement after recognition of assets as follows –
  - (aa) PPE, Heritage assets and Intangible assets - on either a cost or revaluation model; and
  - (bb) Investment Property - either cost model or the fair value model.
- (ii) Different models can be applied, providing the treatment is consistent per asset class.

(b) Cost Model

When the cost model is adopted, an asset is carried after recognition at its cost (or deemed cost) less any accumulated depreciated and any accumulated impairment losses.

(c) Revaluation Model

- (i) When the revaluation model is adopted an asset is carried after recognition at a re-valued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
- (ii) Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. When revaluations are conducted, the entire class of assets should be re-valued. Revaluation is to be executed by persons with suitable professional qualifications and experience. Any change to an asset's carrying amount as a result of revaluation, is credited (or deducted from any surplus from previous

valuations if the re-valued amount decrease from the previous re-valued amount) in the Revaluation Reserve.

- (iii) The revaluation surplus is transferred to the Accumulated Surplus (Deficits) Account on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such immovable asset before the revaluation in question may be transferred from the Revaluation Reserve to the Municipality's Accumulated Surplus/Deficit Account. An adjustment of the aggregate transfer is made at the end of each financial year. If carrying amount based on the revaluation is less than the carrying value of the immovable asset recorded in the asset register, the carrying value of such asset is adjusted by increasing the accumulated depreciation of the immovable asset in question by an amount sufficient to adjust the carrying value to the value based on the revaluation. Such additional depreciation expenses form a charge, in the first instance, against the balance in any Revaluation Reserve previously created for such asset, and to the extent that such balance is sufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question in.

(d) Investment Property

When the fair value model is adopted, all investment property should be measured at its fair value except when the fair value cannot be determined reliably on a continuing basis. The gain or loss from the change in fair the fair value of investment property shall be included in the surplus or deficit for the period in which it arises. The fair value of the investment property shall reflect market conditions at the date. Investment property shall be valued on an annual basis. All fair value

adjustments shall be included in the surplus or deficit for the financial year.

(e) Subsequent Expenses

- (i) The Municipality should not recognise the costs of day-to-day servicing of the item in the carrying amount of an item of capital asset. These costs are recognised as expenditure as and when incurred. Day-to-day costs are primarily the costs of labour and consumables and may include the costs of small parts. The purpose of these expenditures is usually for the 'repair and maintenance' of the capital asset.
- (ii) Expenses incurred in the maintenance or repair (reinstatement) of assets that ensures that the useful operating life of the asset is attained, are considered as operating expenses and not capitalised, irrespective of the quantum of the expenses concerned.
- (iii) Parts of some capital assets may require replacement at regular intervals. For example, a road may need resurfacing every few years. It may be necessary to make less-frequently recurring replacement of parts, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle, an entity recognises in the carrying amount of the capital asset the cost of replacing the part of such an item when that cost is incurred if the recognition criteria are met. At the same time the part to be replaced should be derecognised.

(f) Rehabilitation / Enhancements/Renewals of capital assets

- (i) Expenses incurred in the enhancement of assets (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of assets are capitalised. Such expenses are recognised once the Municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) - prior to this, the expenses are recorded as work-in-progress.
- (ii) Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognised as capital if –
  - (aa) The expenditure satisfies the recognition criteria;
  - (bb) That expenditure is enhancing the service provision of that capital asset beyond its original expectation and either that expenditure –
    - (i) Increases the useful life of that capital asset (beyond its original useful life);
    - (ii) Increases the capital asset capacity (beyond its original capacity);
    - (iii) Increases the performance of the capital asset (beyond the original performance);
    - (iv) Increases the functionality of that capital asset;
    - (v) Reduces the future ownership costs of that capital asset significantly; or
    - (vi) Increases the size of the asset or changes its shape.
- (iii) The expenditure to restore the functionality of the capital asset to its original level is a maintenance or refurbishment expense and will not be capitalised to the carrying value of the capital asset. The rehabilitated or renewed separately depreciable part will be derecognised and the replacement will be recognised. Where the separately identifiable asset is rehabilitated or

renewed, the amount incurred will be added to the carrying value of the asset.

### **5.7.2 Policy Statement**

- (a) Measurement after recognition shall be on the following basis –
  - (i) PPE excluding land and buildings, structures and facilities –
    - (aa) Cost Model – assets are stated at cost (or, if acquired through a non-exchange transaction, at its fair value) less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful lives, residual values and the depreciation methods applied to assets shall be reviewed annually.
  - (ii) Land and buildings PPE –  
Revaluation Model – *Land* and *Buildings*, structures and facilities are stated at fair value less accumulated depreciation and accumulated impairment losses subsequent to initial recognition. Depreciation is charged against *Buildings*, structures and facilities over their expected useful lives. Land is not depreciated as it is deemed to have an indefinite useful life. Changes in asset value as a result of revaluation shall be reflected in a Revaluation Reserve.
  - (iii) Investment Property –  
Fair value Model – after initial recognition, all investment property shall be measured at fair value, which reflects market conditions at the reporting date. Gains or Losses arising from changes in the fair value of investment property are included in

the statement of financial performance in the year in which they arise.

(iv) Intangible Assets –

Cost Model – assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset.

(v) Heritage Assets excluding land and buildings –

Cost Model – these assets are stated at cost (or, if acquired through a non-exchange transaction, at its fair value) less accumulated impairment losses. These heritage assets are not re-valued. If an asset that might be regarded as a heritage asset cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

(vi) Land and buildings Heritage Assets –

Revaluation Model – Heritage assets are stated at fair value less accumulated depreciation and accumulated impairment losses subsequent to initial recognition.

(vii) Biological assets

Biological assets, such as livestock and crops, shall be valued annually at fair value less estimated point-of-sales costs.

(viii) Inventory property

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the Municipality's asset register or statement of financial position. Inventory property shall be valued annually at reporting date at the lower of its carrying value or net realisable value, except where they are held for –

- (aa) Distribution at no charge or for a nominal charge, or
- (bb) Consumption in the production process of goods to be distributed at no charge or for a nominal charge:

Then they shall be measured at the lower of cost and current replacement cost.

### **5.7.3 *Responsibilities***

- (a) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Managers, shall determine effective procedures for the capitalisation of assets on recognition.
- (b) Every Executive Managers shall ensure that all assets under their control are correctly capitalised.
- (c) Every Executive Manager shall ensure that revaluations are conducted where applicable to assets under their control.

## **5.8 DEPRECIATION AND ESTIMATED USEFUL LIVES**

### **5.8.1 *Definition and Rules***

- (a) Depreciation
  - (i) Depreciation is the systematic allocation of the depreciation amount of an asset over its remaining useful life. The amortisation of intangible assets is identical.

(ii) Land, servitudes and heritage assets are considered to have unlimited life and are not depreciated.

(b) Useful life

(i) Useful life is defined as the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by an entity.

(ii) The expected useful life of a depreciable asset is the total expected period (or number of production units) for which an asset can be used economically by the Municipality. The remaining useful life of a depreciable asset is the time remaining until an asset ceases to provide required standard of performance or economic usefulness.

(iii) Although various guidelines exist that includes directives for useful lives of assets, GRAP requires municipalities to use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for particular classes of assets. The calculation of useful life is based on a particular level of planned maintenance.

(c) Residual value

(i) The residual value is the estimated amount that the Municipality would currently obtain from disposal of the asset after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

(ii) The residual values of most assets are however considered to be insignificant and therefore immaterial in the calculation of the

depreciable amount. The reason is that the majority of municipal assets are hardly ever recovered through sale i.e. disposed of for amounts that are significant, but rather recovered through use of the asset until the end of its useful life, after which insignificant amounts, if any, are expected to be obtained, as these assets will most probably be replaced in its entirety.

- (iii) Assets typically not sold by the Municipality are land, buildings, other structures and facilities, and infrastructure assets, which assets will have a residual value of zero, allowing the asset to be fully depreciated over its useful life cycle. Residual values will only be applicable to assets that are normally disposed of by selling them once the Municipality does not have a need for such assets anymore, e.g. motor vehicles. Past experiences of municipal auctions held revealed that furniture, computer equipment and other movable assets does not reach selling prices that are material.

(d) Depreciation Method

Depreciation of assets is applied at the component level. A range of depreciation methods exist and can be selected to model consumption of service potential or economic benefit (for example the straight line method, diminishing amount method, percentage on reducing balance method, sum of the year digits method, production unit method). The approach used should reflect the consumption of the future economic benefits or services potential, and should be reviewed annually where there has been a change in the pattern of consumption.

(e) Remaining useful life

- (i) The remaining useful life of a depreciable asset is the time remaining until an asset ceases to provide required standard of performance or economic usefulness.
- (ii) The remaining useful lives of all depreciable assets at initial recognition are the same as the expected useful lives.

(f) Annual review of remaining useful life

The remaining useful lives of depreciable PPE and Intangible assets are reviewed every year at the reporting date. Changes may be required as a result of new, updated or more reliable information being available. Changes may also be required as a result of impairments (as contemplated in Section 10.8 of this policy). Depreciation and amortisation charges in the current and future reporting periods are adjusted accordingly, and are accounted for as a change in an accounting estimate.

(g) Depreciation charge

Depreciation starts once an asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, and ceases when it is de-recognised. Depreciation is initially calculated from the day when an asset item is acquired or - in the case of construction works and plants and machinery - the day when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, until the end of the calendar month concerned. Depreciation charges are calculated monthly.

(h) Carrying Amount

The carrying amount is the cost price/fair value amount after deducting any accumulated depreciation and accumulated impairment losses.

(i) Spares

The depreciation of capital spares commences immediately when it is available and in the location and condition necessary for it to be capable of operating in the manner intended by management. The depreciation continues once they are placed in services, or subsequently removed from services.

(j) Finance Lease

Depreciation assets financed through a finance lease will give rise to a depreciation expense and finance cost which will occur for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with the policy of depreciable owned assets, and the depreciation recognised shall be calculated in accordance with GRAP 17 on Property, Plant and Equipment. If there is no reasonable certainty that the Municipality will obtain ownership by the end of the lease term, the asset will be fully depreciated over the shorter of the lease term and the asset's useful life.

### **5.8.2 Policy Statement**

(a) Depreciation

(i) All PPE except land shall be depreciated over their remaining useful lives. Intangible assets (except servitudes) will be amortised over their remaining useful life.

(ii) The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other PPE.

(iii) Depreciation shall generally take the form of an expense both calculated and debited on an annual basis against the appropriate line item in the department or vote in which the item of PPE is used or consumed.

(b) Useful lives

(i) The expected useful lives applied at DM are indicated in **Annexure A**. These figures have been established using available information on industry norms, experience of local influencing factors (such as climate, geotechnical conditions and operating conditions), the life-cycle strategy of the Municipality, potential technical obsolescence, and legal limits on the use of the assets.

(ii) The remaining useful lives of depreciable PPE and Intangible assets are reviewed every year at the reporting date. Changes may be required as a result of new, updated or more reliable information being available. Changes may also be required as a result of impairments. Depreciation and amortisation charges in the current and future reporting periods are adjusted accordingly, and are accounted for as a change in an accounting estimate.

(iii) During annual physical verification of movable assets, an assessment of condition and use shall determine the appropriateness of the remaining useful lives, while for infrastructure assets, the useful lives shall be deemed to be appropriate unless an event has occurred or conditions of use have changed, which may have an effect on the remaining useful lives of these assets.

(c) Depreciation method

The method of depreciation shall be reviewed on an annual basis, though the straight line basis shall be used in all cases unless determined otherwise.

(d) Residual values

- (i) Residual values shall be determined upon initial recognition of assets that are normally disposed of by selling them once the Municipality does not have a need for such assets anymore, e.g. motor vehicles and earthmoving equipment. The basis of the residual value estimates shall be determined by the results of past sales of these types of assets at auctions when it reaches the end of its useful lives.
- (ii) The residual value of assets shall be reviewed annually at reporting date, and amended if significantly different from values previously determined. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

**5.8.3 *Responsibilities***

- (a) Every Executive Manager shall ensure that a budgetary provision is made for the depreciation of assets under their control in the ensuing financial year, in consultation with the CFO.
- (b) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Managers, shall assign a useful operating life to each depreciable asset item recorded on the Municipality's asset register. In determining such a useful life, the useful lives set out in the **Annexure A** to this document shall be used as a guideline.

- (c) In the case of an asset item which is not listed in ***Annexure A***, the Manager: Assets and Insurance Management shall determine a useful operating life, if necessary in consultation with the Executive Manager controlling or using the item in question, and shall be guided in determining such useful life by the likely pattern in which the item's economic benefits or service potential will be consumed.
- (d) The CFO shall ensure that the expected useful lives stated in ***Annexure A*** are applied.
- (e) Depreciation rates (expected useful lives) used shall be included in the approved accounting policy.
- (f) Every Executive Manager shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such item attain their useful operating lives.
- (g) The CFO shall indicate an annual date for the review of the remaining useful life of assets under the control of the respective Executive Managers.
- (h) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Managers, shall ensure that the useful lives of all depreciable assets in the asset register are annually reviewed.
- (i) Every Executive Manager shall ensure that the expected useful lives of all assets under their control are annually reviewed.
- (j) The Manager: Assets and Insurance Management shall annually review the residual values of assets that are normally disposed of by selling them, and which reach selling prices that are material.
- (k) The Manager: Assets and Insurance Management shall ensure that depreciation calculations are correctly applied and posted in the general ledger.

- (I) The Manager: Assets and Insurance Management shall ensure that depreciation charges are debited on a regular basis (preferably monthly) and that the asset register is reconciled with the general ledger.

## **5.9 IMPAIRMENT**

### **5.9.1 *Definition and Rules***

- (a) Impairment

Impairment is defined as the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the assets future economic benefits or service potential through depreciation.

- (b) Indications of impairment

- (i) The Municipality must review assets for impairment when one of the indicators below occurs or at least at the end of each reporting period. In assessing whether there is any indication that an asset may be impaired, an entity shall consider as a minimum the following indicators –

- (aa) External Sources of Information –

- (i) Decline or cessation in demand;
    - (ii) Changes in the technological, Legal or government policy environment;
    - (iii) The carrying amount on the net assets of the entity is more than its market capitalisation; or
    - (iv) Market interest rates have increased during the period, and those increases are likely to affect the discount rate used in calculating an assets value

in use and decrease the assets recoverable amount materially.

(bb) A halt in construction could indicate impairment. Where construction is delayed or postponed to a specific date in the future, the project may be treated as work in progress and not considered as halted.

(bb) Internal Sources of Information –

- (i) Evidence of physical damage;
- (ii) Evidence of obsolescence;
- (iii) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or a manner in which, an asset is used or is expected date, and reassessing the useful life of an asset as finite rather than indefinite;
- (iv) Cash flow for acquiring an asset or maintenance cost thereafter is higher than originally budgeted;
- (v) The actual net cash flow or operating profit or loss flowing from an asset are significantly worse than those budgeted;
- (vi) A significant decline in budgeted net cash flow or operating profit, or a significant increase in the budget loss; flowing from the asset;
- (vii) Operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future; or
- (viii) Other indications, such as loss of market value.

(c) Impairment of projects under construction

In assessing whether a halt in construction would trigger an impairment test, it should be considered whether construction has simply been

delayed or postponed, whether the intention to resume construction in the near future or whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postpones to a specific future date, the project may be treated as work in progress and is not considered as halted.

(d) Intangible assets

The Municipality must test all intangible assets not yet available for use or which have an indefinite useful life for impairment. This impairment test may be performed at any time during the reporting period it is performed at the same time every year.

(e) Significant and Enduring Nature

The Municipality must only record impairments that are significant and have an enduring adverse effect (material and long-term impact). The events and circumstances in each instance must be recorded. Where there are indications of impairment, the Municipality must estimate the recoverable services amount of the asset and also consider adjustment of the remaining useful life, residual value, and method of depreciation.

(f) Impairment loss

(i) An impairment loss of a non-cash-generating unit or asset is defined as the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

(ii) An impairment loss of a cash-generating unit (smallest group of assets that generate cash flows) or asset is the amount by which the carrying amount of an asset exceeds its recoverable

amount. The recoverable amount is the higher of the fair value less costs to sell and its value in use.

(g) Non-cash generating units

Non-cash-generating units are those assets (or group of assets) that are not held the primary objective of generating a commercial return. This would typically apply to assets providing goods or services for community or social benefit.

(h) Cash-generating unit

Cash-generating units are those assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

(i) Judgement

The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the asset is a cash generating or non-cash generating asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be non-cash generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether extent to which the asset generates cash flows is so significant that the asset is a non-cash-generating or a cash-generating asset. Judgement is needed in these circumstances.

(j) Recognition of impairment

- (i) The impairment loss is recognised as an expense when incurred (unless the asset is carried at a re-valued amount, in which case the impairment is carried as a decrease in the Revaluation Reserve, to the extent that such reserve exists). After the recognition of an impairment loss, the depreciation charge for the asset is adjusted for future periods to allocate the assets revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
- (ii) When no future economic benefit is likely to flow from an asset, it is derecognised and the carrying amount of the asset at the time of de-recognition, less any economic benefit from the de-recognition of the asset, is debited to the Statement of Financial Performance as a “Loss on Disposal of Asset”.
- (iii) In the event of compensation received for damage to an item of immovable PPE, the compensation is considered as the assets ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired/de-recognised.

(k) Reversing the impairment loss

The Municipality must assess each year from the source of information indicated above whether there is any indication that an impairment loss recognised in previous years may no longer exist or may have decreased. In such cases, the carrying amount is increased to its recoverable amount (providing that it does not exceed the carrying amount that would have determined had no impairment loss been recognised in prior periods). Any reversal of an impairment loss is recognised as a credit in surplus or deficit.

### **5.9.2 *Policy Statement***

- (a) Assets shall be reviewed annually for impairment indicators. If any of the indicators are present, the Municipality shall make an estimate of the recoverable service amount.
- (b) Ad-hoc impairment shall be identified as part of normal operational management as well as scheduled annual inspections of the assets.
- (c) In this regard, the Municipality considers itself an entity whose primary objective is to provide goods and services for community or social benefits, and where positive cash flows are generated (such as from sale of trading services such as water services), these are with view to support the primary objective rather than for financial return to equity holders. Consequently the Municipality adopts the impairment treatment for non-cash generating units in the impairment of its PPE, Heritage assets and Intangible assets.
- (d) Impairment of assets shall be recognised as an expense in the Statement of Financial Performance when it occurs, unless it reverses a previous revaluation in which case it shall be charged to the Revaluation Surplus. The reversal of previous impairment losses recognised as an expense is recognised as an income.

### **5.9.3 *Responsibilities***

- (a) The CFO shall indicate an annual date for the review of any impairment that may have occurred on assets under the control of the respective Executive Managers.
- (b) The Executive Managers shall review any impairment on the assets under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material negative effect on the performance of these assets. The

Executive Managers shall motivate to the CFO proposed changes to the performance of such assets and the necessary impairment that needs to be recognised on such assets.

- (c) The Executive Managers should evaluate all assets for impairment, taking into consideration any discussions with the Manager: Assets and Insurance Management and other Operating Managers.
- (d) The Manager: Assets and Insurance Management shall ensure that the asset register is updated with the information received, relating to the impairment, from the financial system where the impairment journal has been processed.

## 5.10 DE-RECOGNITION

### 5.10.1 ***Definition and rules***

- (a) Alienation / Disposal
  - (i) Alienation / Disposal (alienation) is the process of disowning assets by transferring ownership or title to another owner, which is external to the Municipality. The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of capital assets.
  - (ii) Government Gazette no 31346 sets out the regulations regarding municipal asset transferred and disposals, for example type of assets that need approval to be disposed or transferred, timeframes and Council approval.
  - (iii) Disposal of assets should be approved by Council and where applicable at market-related value (or at auction / per tender in the case of movable assets). Section 14 of the MFMA prohibits

the disposal of assets needed to provide the minimum level of basic municipal services.

- (iv) Disposal of assets should be at fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent (the total proceeds discounted to the present value as at the transaction date). The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue.

(b) De-recognition

- (i) Assets are derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. An asset will remain in the asset register for as long as it is in physical existence or is yet to be written off.
- (ii) The profit or loss on disposal (difference between carrying amount of the asset and the net disposal proceeds [or cost of de-commissioning and/or disposal of the asset]) shall be included in the statement of financial performance when the item is derecognised.

**5.10.2 Policy Statement**

- (a) The only reasons for writing off assets, other than the alienation of such assets, shall be the loss, theft, destruction, material impairment, or decommissioning of the asset in question.
- (b) Assets for which no future economic benefits or service potential are expected shall be identified and method of disposal and the associated costs or income considered by Council, taking into account SCM regulations and the Municipality's policy on disposal of assets. The carrying amount of the asset shall be de-recognised and the profit

or loss on disposal shall be included in the statement of financial performance.

(c) External Transfer of assets

- (i) When assets are transferred to other Government Departments or municipalities, a document with specific authorisation should be tied to the asset to ensure the validity of the transfer.
- (ii) The document should also include –
  - (aa) Asset description;
  - (bb) Cost of the asset;
  - (cc) Date of acquisition;
  - (dd) Unique asset number;
  - (ee) Effective date of transfer;
  - (ff) Quantity; and
  - (gg) Authorisation by both transferor and transferee.

**5.10.3 Responsibilities**

- (a) Assets shall be disposed of (alienated) only on the recommendation of the Executive Manager of the department controlling the asset.
- (b) If the value of an item of PPE or intangible assets has been reduced to such an extent that it has no or a negligible further useful operating life or value such item shall be fully depreciated in the financial year in which such decrease in value occurs.
- (c) Similarly, if an item of PPE has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the item has physically ceased to exist, it shall be written off in the asset register.

- (d) Every Executive Manager shall report to the CFO on 31 October and 30 April of each financial year on assets which such Executive Manager wishes to have de-recognised, stating in full the reason for such recommendation, indicating whether or not the assets are associated with the provision of basic services.
- (e) The Manager: Assets and Insurance Management shall report to the CFO (or delegated official) on 31 July of each financial year on lost or stolen assets, i.e. assets identified through insurance claims or movable assets not verified during annual verification and not located after follow-up with the asset custodian, and after thorough investigation of incidents.
- (f) The CFO (or delegated official) shall consolidate all such reports, and shall promptly make a submission to the Municipal Manager or Council on the assets to be de-recognised, the proposed method of disposal, and the estimated cost or income from such disposal.
- (g) Council shall delegate to the Municipal Manager the authority to approve the alienation of any movable asset with a carrying value less than R 50,000 (fifty thousand rand). Council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R 50,000 (fifty thousand rand) takes place in compliance with Section 14 of the MFMA.
- (h) Council shall consider the submission for approval or, in cases where the carrying value of movable assets do not exceed R 50,000, the Municipal Manager shall consider the submission and make recommendation to the Council for adoption.
- (i) Assets that are replaced in the normal course of the life-cycle renewal should be de-recognised and removed from the asset register. In this regard, Executive Managers shall provide details to the Manager: Assets and Insurance Management (or delegated official) in order to accurately identify in the asset register the assets replaced.

- (j) The Manager: Assets and Insurance Management shall de-recognise all assets disposed of (including assets replaced and written off) and update the asset register.
- (k) In every instance where a not fully depreciated asset item is written off, the Manager: Assets and Insurance Management shall debit to such department or vote, as additional depreciation expenses, the full carrying value of the item concerned.

## **5.11 INSURANCE**

### **5.11.1 *Definition and rules***

- (a) Insurance provides selected coverage for the accidental loss of asset value.
- (b) Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury. The Municipality can however elect to insure certain infrastructure risks.
- (c) The Municipality may elect to operate a self-insurance reserve, in which case the CFO shall annually determine the premiums payable by the department or votes after having received a list of assets and insurable values of all relevant assets from the Executive Managers concerned.

### **5.11.2 *Policy Statement***

- (a) Material movable and immovable assets (in value and substance) shall be insured at least against destruction, fire and theft, and all municipal buildings shall be insured at least against fire and allied perils.

- (b) All insured assets shall be handled in terms of the Municipality's Insurance Policy as agreed with the Insurance Company / Brokers.
- (c) Third-party (insurance) pay-outs shall be treated as revenue when the amount is certain and may not be offset against the cost of replacing the item. The carrying value of items lost, stolen or damaged beyond repair shall be treated as impairment or disposal against the relevant department or vote. The full cost of the replacement item shall then be capitalised.

#### **5.11.3 *Responsibilities***

- (a) The CFO (or delegated official) shall ensure that material movable and immovable assets are insured at least against fire and theft, and that municipal buildings are insured at least against fire and allied perils.
- (b) Each Executive Manager shall before 31 May of each year verify or update the schedule of insurable risks and insurable assets under their control (and any other information deemed necessary).
- (c) Should circumstances change during the year amendments, additions or deletions should be made to the insurance portfolio with the Insurance Company/Insurance Broker.
- (d) It shall be the duty of each Executive Manager to notify the CFO (or delegated official) without delay of any new insurable risk or of any alteration in an existing insurable risk which has arisen in connection with his/her department.
- (e) On the occurrence of any event giving rise or likely to give rise to a claim by or against the Council or against its insurers, the Executive Manager of the department concerned shall ensure that the CFO (or delegated official) is notified of that event.

- (f) The CFO (or delegated official) shall immediately notify the Council's insurer of any claim by or against the Council or against its insurers.
- (g) It is the responsibility of the relevant Executive Manager to ensure that all documents / information for the completion of the claim is forwarded to the CFO (or delegated official) for submission to Council's insurance brokers.

## **5.12 FUNDING SOURCES**

### **5.12.1 *Definition and rules***

- (a) The MFMA provides guidelines on how to utilize funds in financing assets (Section 19 of MFMA). The Municipality utilise any of the following sources to acquire and / or purchase assets –
  - (i) Grants, Subsidies and Public Contributions;
  - (ii) Revenue Contributions;
  - (iii) Capital Replacement Reserve (CRR);
  - (iv) Self-Insurance Reserve (SIR);
  - (v) Cash Surplus; and / or
  - (vi) External / Donor Funds.

### **5.12.2 *Policy Statement***

- (a) The annual capital budget shall be funded and the sources of finance disclosed as part of the Council's budget.
- (b) It is the policy of Council to maintain and annually make contributions to a CRR to ensure that the CRR remains a capital funding source for

the future. The Municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The IDP, the Municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR.

#### **5.12.3 *Responsibilities***

- (a) The CFO shall ensure that in respect of all assets financed from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of assets donated to the Municipality, a grants reserve or public contribution reserve for future depreciation is created equal in value to the capitalised value of each asset item in question.
- (b) The CFO shall thereafter ensure that in the case of depreciable assets an amount equal to the annual depreciation expenses of the items concerned are transferred.
- (c) The CFO shall ensure that in respect of all assets financed from the CRR, whenever an asset (including land) is sold by the Municipality, the proceeds on the sale of the assets are transferred from the Accumulated Surplus to the CRR via the statement of changes in net assets, and whenever an asset is purchased out of the CRR an amount equal to the cost price of the asset purchased, is transferred from the CRR into accumulated surplus.
- (d) The CFO shall annually determine the amount to be transferred from the Accumulated Surplus to the Self-Insurance Reserve.

## **6. POLICY FOR ASSET SAFEGUARDING**

### **6.1 *Definitions and rules***

- (a) The Municipality applies control and safeguards to ensure that assets are protected against improper use, loss, theft, malicious damage or accidental damage.
- (b) The existence of assets is physically verified from time-to-time, and measures adopted to control their use. Budgetary constraints may however restrict the measures adopted.
- (c) The Municipality may allocate day-to-day duties relating to such control, verification and safekeeping to asset custodians, and record such in the asset register.

### **6.2 *Policy Statement***

- (a) Asset safeguarding directives and procedures shall be prepared for all assets indicating measures that are considered effective to ensure that all assets under control of the Municipality are appropriately safeguarded from inappropriate use or loss, including the identification of asset custodians for all assets.
- (b) The existence, condition and location of these assets shall be verified annually (including a condition assessment to identify indicators of impairment and determine the impact on an asset's remaining useful life).
- (c) No asset may be moved without the prior consent of the respective Executive Manager and notification of the Manager: Assets and Insurance Management.

### **6.3 *Responsibilities***

- (a) The Manager: Assets and Insurance Management shall prepare and submit to the CFO procedures to be implemented and standard forms to be utilised for the effective management of movement of assets from one location to another (both internal and external), transfers of assets from one custodian to another, and reporting of damage, in consultation with the Executive Managers.
- (b) Executive Managers shall enforce the application of the procedures for controlling and safeguarding the Municipality's assets, including the movement of assets and confirmation of verified assets during annual verification, as prescribed by the CFO.
- (c) It is the responsibility of all municipal staff to adhere and practice strict physical controls of the assets around their work area.
- (d) Executive Managers shall ensure that rented assets, such as photocopy machines, shall not be moved, unless by duly authorised staff.
- (e) Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 48 hours of its occurrence or awareness by the respective Executive Manager.
- (f) The Municipal Manager must report criminal activities to the South African Police Services.

## ANNEXURES

### ANNEXURE A: ASSET CLASSIFICATION

PROPERTY, PLANT AND EQUIPMENT			
PPE - INFRASTRUCTURE ASSETS			
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
ELECTRICITY	WORK IN PROGRESS		0
ELECTRICITY	HIGH VOLTAGE	HV OVERHEAD LINE	50
ELECTRICITY	HIGH VOLTAGE	HV UNDERGROUND CABLE	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	AIS ISOLATOR	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	AUXILIARY TRANSFORMER	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	BATTERY TRIPPING UNIT	10
ELECTRICITY	HIGH VOLTAGE SUBSTATION	CAPACITOR BANK	15
ELECTRICITY	HIGH VOLTAGE SUBSTATION	CIRCUIT BREAKER	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	CURRENT TRANSFORMER	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	DISTRIBUTION TRANSFORMER	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	EARTH SWITCH	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	GIS BUS DUCTING	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	HV BUSBAR	60
ELECTRICITY	HIGH VOLTAGE SUBSTATION	INDOOR GIS BAYS	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	HV SWITCHGEAR	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	NEUTRAL EARTHING COMPONENT	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	NEUTRAL EARTHING RESISTOR	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	OTHER ASSETS	15-50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	ELECTRICAL PLANT	35
ELECTRICITY	HIGH VOLTAGE SUBSTATION	OUTDOOR AIS ISOLATOR	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	OUTDOOR AIS ISOLATOR PANTO	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	PANELS	45
ELECTRICITY	HIGH VOLTAGE SUBSTATION	POWER TRANSFORMER	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	PROTECTION PANEL	45
ELECTRICITY	HIGH VOLTAGE SUBSTATION	RING MAIN UNIT	45
ELECTRICITY	HIGH VOLTAGE SUBSTATION	RIPPLE RELAYS	35
ELECTRICITY	HIGH VOLTAGE SUBSTATION	SURGE ARRESTOR	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	ELECTRICAL PLANT	30
ELECTRICITY	HIGH VOLTAGE SUBSTATION	VOLTAGE TRANSFORMER	45
ELECTRICITY	HIGH VOLTAGE SUBSTATION	VOLTAGE TRANSFORMER	50
ELECTRICITY	LOW VOLTAGE	LV OVERHEAD LINE	50
ELECTRICITY	LOW VOLTAGE	LV UNDERGROUND CABLE	50
ELECTRICITY	LOW VOLTAGE	CONSUMER CONNECTION CABLE	50

ELECTRICITY	LOW VOLTAGE	CONSUMER CONNECTION POINT	50
ELECTRICITY	LOW VOLTAGE	HIGH MAST LIGHTING	20
ELECTRICITY	LOW VOLTAGE	PILLAR BOX	40
ELECTRICITY	LOW VOLTAGE	STREET LIGHT CABLE	50
ELECTRICITY	MEDIUM VOLTAGE	AUTO RECLOSER	45
ELECTRICITY	MEDIUM VOLTAGE	CAPACITOR	15
ELECTRICITY	MEDIUM VOLTAGE	DISTRIBUTION TRANSFORMER	50
ELECTRICITY	MEDIUM VOLTAGE	DISTRIBUTION TRANSFORMER	50
ELECTRICITY	MEDIUM VOLTAGE	METERING UNIT	45
ELECTRICITY	MEDIUM VOLTAGE	MINI SUBSTATION	50
ELECTRICITY	MEDIUM VOLTAGE	MV OVERHEAD LINE	50
ELECTRICITY	MEDIUM VOLTAGE	MV UNDERGROUND CABLE	50
ELECTRICITY	MEDIUM VOLTAGE	RING MAIN UNIT	45
ELECTRICITY	MEDIUM VOLTAGE	SECTIONALIZER	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	AUTO RECLOSER	45
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	AUXILIARY TRANSFORMER	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	BATTERY TRIPPING UNIT	10
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	CIRCUIT BREAKER	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	DISTRIBUTION TRANSFORMER	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	MV SWITCHGEAR	45
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	MV SWITCHGEAR	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	NEUTRAL EARTHING RESISTOR	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	OTHER ASSETS	15-50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	POWER TRANSFORMER	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	PROTECTION PANEL	45
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	RING MAIN UNIT	45
ELECTRICITY	MEDIUM VOLTAGE	OTHER ASSETS	30
ELECTRICITY	LOW VOLTAGE	STREET LIGHT	25
ELECTRICITY	HIGH VOLTAGE	METERING UNIT	45
ELECTRICITY	HIGH VOLTAGE	OTHER ASSETS	15-50
ELECTRICITY	HIGH VOLTAGE	RING MAIN UNIT	45
ELECTRICITY	LOW VOLTAGE	CONSUMER CONNECTION CABLE	50
ELECTRICITY	LOW VOLTAGE	CONSUMER CONNECTION POINT	50
ELECTRICITY	LOW VOLTAGE	STREET LIGHT CABLE	50
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
WATER SUPPLY	WORK IN PROGRESS		0
WATER SUPPLY	WATER TREATMENT WORKS	MECHANICAL PLANT	1-50
WATER SUPPLY	BOREHOLE	CIVIL STRUCTURE	5-100
WATER SUPPLY	BOREHOLE	ELECTRICAL PLANT	5-50
WATER SUPPLY	BOREHOLE	MECHANICAL PLANT	15-30
WATER SUPPLY	BOREHOLE	OTHER ASSETS	5-50
WATER SUPPLY	BULK WATER PIPELINE	CIVIL STRUCTURE	20-50
WATER SUPPLY	BULK WATER PIPELINE	ELECTRICAL PLANT	15

WATER SUPPLY	BULK WATER PIPELINE	MECHANICAL PLANT	15
WATER SUPPLY	BULK WATER PIPELINE	PIPES	50-100
WATER SUPPLY	CONSUMER CONNECTIONS	ELECTRICAL PLANT	50
WATER SUPPLY	CONSUMER CONNECTIONS	OTHER ASSETS	50
WATER SUPPLY	DAM	CIVIL STRUCTURE	5-100
WATER SUPPLY	DAM	ELECTRICAL PLANT	5-50
WATER SUPPLY	DAM	MECHANICAL PLANT	1-50
WATER SUPPLY	DAM	OTHER ASSETS	5-50
WATER SUPPLY	PUMP STATION	CIVIL STRUCTURE	5-100
WATER SUPPLY	PUMP STATION	ELECTRICAL PLANT	5-50
WATER SUPPLY	PUMP STATION	MECHANICAL PLANT	1-50
WATER SUPPLY	PUMP STATION	OTHER ASSETS	5-50
WATER SUPPLY	RESERVOIR	CIVIL STRUCTURE	5-100
WATER SUPPLY	RESERVOIR	ELECTRICAL PLANT	5-50
WATER SUPPLY	RESERVOIR	MECHANICAL PLANT	1-50
WATER SUPPLY	RESERVOIR	OTHER ASSETS	5-50
WATER SUPPLY	SPRING	CIVIL STRUCTURE	5-100
WATER SUPPLY	SPRING	ELECTRICAL PLANT	5-50
WATER SUPPLY	SPRING	MECHANICAL PLANT	1-50
WATER SUPPLY	SPRING	OTHER ASSETS	5-50
WATER SUPPLY	WATER CHANNEL	CIVIL STRUCTURE	5-100
WATER SUPPLY	WATER CHANNEL	ELECTRICAL PLANT	5-50
WATER SUPPLY	WATER CHANNEL	MECHANICAL PLANT	15
WATER SUPPLY	WATER CHANNEL	OTHER ASSETS	5-50
WATER SUPPLY	WATER PIPELINE	CIVIL STRUCTURE	20-50
WATER SUPPLY	WATER PIPELINE	ELECTRICAL PLANT	15
WATER SUPPLY	WATER PIPELINE	MECHANICAL PLANT	15
WATER SUPPLY	WATER PIPELINE	PIPES	50-100
WATER SUPPLY	WATER TREATMENT WORKS	CIVIL STRUCTURE	5-100
WATER SUPPLY	WATER TREATMENT WORKS	ELECTRICAL PLANT	5-50
WATER SUPPLY	WATER TREATMENT WORKS	OTHER ASSETS	5-50
WATER SUPPLY	WEIR	CIVIL STRUCTURE	5-100
WATER SUPPLY	WEIR	ELECTRICAL PLANT	5-50
WATER SUPPLY	WEIR	MECHANICAL PLANT	15-50
WATER SUPPLY	WEIR	OTHER ASSETS	5-50
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
SANITATION	WORK IN PROGRESS		0
SANITATION	BULK SEWER PIPELINE	CIVIL STRUCTURE	20-50
SANITATION	BULK SEWER PIPELINE	ELECTRICAL PLANT	15
SANITATION	BULK SEWER PIPELINE	MECHANICAL PLANT	15
SANITATION	BULK SEWER PIPELINE	PIPES	50-100
SANITATION	PUMP STATION	CIVIL STRUCTURE	5-100
SANITATION	PUMP STATION	ELECTRICAL PLANT	5-50

SANITATION	PUMP STATION	MECHANICAL PLANT	1-50
SANITATION	PUMP STATION	OTHER ASSETS	5-50
SANITATION	SEWAGE TREATMENT WORKS	CIVIL STRUCTURE	5-100
SANITATION	SEWAGE TREATMENT WORKS	ELECTRICAL PLANT	5-50
SANITATION	SEWAGE TREATMENT WORKS	MECHANICAL PLANT	1-50
SANITATION	SEWAGE TREATMENT WORKS	OTHER ASSETS	5-50
SANITATION	SEWER PIPELINE	CIVIL STRUCTURE	20-50
SANITATION	SEWER PIPELINE	ELECTRICAL PLANT	15
SANITATION	SEWER PIPELINE	MECHANICAL PLANT	15
SANITATION	SEWER PIPELINE	PIPES	50-100
SANITATION	CONSUMER CONNECTIONS	OTHER ASSETS	50
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
ROAD TRANSPORT	WORK IN PROGRESS		0
ROAD TRANSPORT	FOOTPATHS	CIVIL STRUCTURE	20-50
ROAD TRANSPORT	PARKING BAYS	CIVIL STRUCTURE	20-50
ROAD TRANSPORT	ROAD	CIVIL STRUCTURE	7-50
ROAD TRANSPORT	ROAD	OTHER ASSETS	10-50
ROAD TRANSPORT	STRUCTURE	CIVIL STRUCTURE	20-100
ROAD TRANSPORT	TAXI RANK	CIVIL STRUCTURE	20-50
ROAD TRANSPORT	TAXI RANK	OTHER ASSETS	10-50
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
STORM WATER	WORK IN PROGRESS		0
STORM WATER	ATTENUATION POND	CIVIL STRUCTURE	20-100
STORM WATER	ATTENUATION POND	OTHER ASSETS	50
STORM WATER	CHANNEL	CIVIL STRUCTURE	5-100
STORM WATER	CHANNEL	OTHER ASSETS	50
STORM WATER	CULVERT	CIVIL STRUCTURE	20-50
STORM WATER	EMBANKMENT	CIVIL STRUCTURE	20-100
STORM WATER	EMBANKMENT	MECHANICAL PLANT	15
STORM WATER	EROSION PROTECTION	CIVIL STRUCTURE	20-100
STORM WATER	EROSION PROTECTION	OTHER ASSETS	50
STORM WATER	STORMWATER PIPELINE	CIVIL STRUCTURE	30-50
STORM WATER	STORMWATER PIPELINE	ELECTRICAL PLANT	15
STORM WATER	STORMWATER PIPELINE	MECHANICAL PLANT	15
STORM WATER	STORMWATER PIPELINE	PIPES	50
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
SOLID WASTE DISPOSAL	WORK IN PROGRESS		0
SOLID WASTE DISPOSAL	LANDFILL	CIVIL STRUCTURE	5-100
SOLID WASTE DISPOSAL	LANDFILL	ELECTRICAL PLANT	5-50
SOLID WASTE DISPOSAL	LANDFILL	MECHANICAL PLANT	15-30
SOLID WASTE DISPOSAL	LANDFILL	OTHER ASSETS	5-50
SOLID WASTE DISPOSAL	TRANSFER STATIONS	CIVIL STRUCTURE	5-100

SOLID WASTE DISPOSAL	TRANSFER STATIONS	ELECTRICAL PLANT	5-50
SOLID WASTE DISPOSAL	TRANSFER STATIONS	MECHANICAL PLANT	30
SOLID WASTE DISPOSAL	TRANSFER STATIONS	OTHER ASSETS	5-50

#### PPE - LAND

HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
LAND VACANT			0
LAND WITH IMPROVEMENTS			0

#### PPE - BUILDINGS, STRUCTURES AND FACILITIES

HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
BUILDINGS	WORK IN PROGRESS		0
BUILDINGS	OPERATIONAL BUILDINGS	CIVIL STRUCTURE	10-50
BUILDINGS	OPERATIONAL BUILDINGS	OTHER ASSETS	10-50
BUILDINGS	COMMUNITY BUILDINGS	CIVIL STRUCTURE	10-50
BUILDINGS	COMMUNITY BUILDINGS	OTHER ASSETS	10-50
BUILDINGS	OTHER BUILDINGS	CIVIL STRUCTURE	10-50
BUILDINGS	OTHER BUILDINGS	OTHER ASSETS	10-50
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
RECREATIONAL AND SPORTS FACILITIES	WORK IN PROGRESS		0
RECREATIONAL AND SPORTS FACILITIES	SPORTS FACILITIES	CIVIL STRUCTURE	15-100
RECREATIONAL AND SPORTS FACILITIES	SPORTS FACILITIES	ELECTRICAL PLANT	5-50
RECREATIONAL AND SPORTS FACILITIES	SPORTS FACILITIES	MECHANICAL PLANT	15
RECREATIONAL AND SPORTS FACILITIES	SPORTS FACILITIES	OTHER ASSETS	5-50
RECREATIONAL AND SPORTS FACILITIES	RESORTS AND CAMPSITES	CIVIL STRUCTURE	15-100
RECREATIONAL AND SPORTS FACILITIES	RESORTS AND CAMPSITES	ELECTRICAL PLANT	5-50
RECREATIONAL AND SPORTS FACILITIES	RESORTS AND CAMPSITES	MECHANICAL PLANT	15
RECREATIONAL AND SPORTS FACILITIES	RESORTS AND CAMPSITES	OTHER ASSETS	5-50
PARKS, GARDENS AND CEMETERIES	WORK IN PROGRESS		0
PARKS, GARDENS AND CEMETERIES	CEMETERIES	CIVIL STRUCTURE	20-100
PARKS, GARDENS AND CEMETERIES	CEMETERIES	OTHER ASSETS	10-50
PARKS, GARDENS AND CEMETERIES	PARKS	CIVIL STRUCTURE	20-100
PARKS, GARDENS AND CEMETERIES	PARKS	ELECTRICAL PLANT	15-40
PARKS, GARDENS AND CEMETERIES	PARKS	OTHER ASSETS	5-50
PARKS, GARDENS AND CEMETERIES	NURSERIES AND GARDENS	OTHER ASSETS	5-50
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
HOUSING ASSETS	WORK IN PROGRESS		0
HOUSING ASSETS	HOUSES		50
HOUSING ASSETS	FLATS		50

#### PPE - OTHER ASSETS

HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
TRANSPORT ASSETS (MOTOR VEHICLES)	CONSTRUCTION, EARTHMOVING AND MAINTENANCE VEHICLES		15-20

TRANSPORT ASSETS (MOTOR VEHICLES)	EMERGENCY VEHICLES		7-20
TRANSPORT ASSETS (MOTOR VEHICLES)	LDVS AND 4X4S		7
TRANSPORT ASSETS (MOTOR VEHICLES)	MOTORCYCLES AND BICYCLES		5-7
TRANSPORT ASSETS (MOTOR VEHICLES)	PASSENGER VEHICLES		7
TRANSPORT ASSETS (MOTOR VEHICLES)	TRACTORS		15-20
TRANSPORT ASSETS (MOTOR VEHICLES)	TRAILERS AND ACCESSORIES		10
TRANSPORT ASSETS (MOTOR VEHICLES)	TRUCKS AND BUSES		15
TRANSPORT ASSETS (MOTOR VEHICLES)	VEHICLE ACCESSORIES		7
TRANSPORT ASSETS (MOTOR VEHICLES)	WATERCRAFT		7-10
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
OFFICE EQUIPMENT	AIR CONDITIONERS INDIVIDUAL FIXED AND MOVABLE		10
OFFICE EQUIPMENT	DOMESTIC EQUIPMENT		5-7
OFFICE EQUIPMENT	OFFICE MACHINES		5
OFFICE EQUIPMENT	OTHER OFFICE EQUIPMENT		5-10
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
COMPUTER EQUIPMENT	COMPUTER HARDWARE INCLUDING OPERATING SYSTEMS		3-5
COMPUTER EQUIPMENT	COMPUTER NETWORKS		10
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
MACHINERY AND EQUIPMENT	AUDIOVISUAL AND PHOTOGRAPHIC EQUIPMENT		5
MACHINERY AND EQUIPMENT	COMPRESSORS, GENERATORS AND ALLIED EQUIPMENT		7
MACHINERY AND EQUIPMENT	FIRE AND EMERGENCY EQUIPMENT		7
MACHINERY AND EQUIPMENT	GARDENING EQUIPMENT		5
MACHINERY AND EQUIPMENT	LABORATORY EQUIPMENT		5
MACHINERY AND EQUIPMENT	LAW ENFORCEMENT EQUIPMENT		5
MACHINERY AND EQUIPMENT	MUSICAL INSTRUMENTS		15
MACHINERY AND EQUIPMENT	RADIO EQUIPMENT		5
MACHINERY AND EQUIPMENT	SECURITY EQUIPMENT AND SYSTEMS		10
MACHINERY AND EQUIPMENT	SPORTS AND RECREATIONAL EQUIPMENT		10
MACHINERY AND EQUIPMENT	TELECOMMUNICATION EQUIPMENT		10
MACHINERY AND EQUIPMENT	WORKSHOP EQUIPMENT AND LOOSE TOOLS		7
MACHINERY AND EQUIPMENT	CONTAINERS AND WENDYHOUSES		10
MACHINERY AND EQUIPMENT	OTHER MACHINERY AND EQUIPMENT		7-10
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
FURNITURE AND FITTINGS	CABINETS AND CUPBOARDS		7
FURNITURE AND FITTINGS	CHAIRS AND COUCHES		7
FURNITURE AND FITTINGS	DESKS AND TABLES		7
FURNITURE AND FITTINGS	DOMESTIC FURNITURE		7
FURNITURE AND FITTINGS	PAINTINGS, SCULPTURES AND ORNAMENTS		7
FURNITURE AND FITTINGS	SHELVING AND BOOKCASES		7
FURNITURE AND FITTINGS	OTHER FURNITURE AND FITTINGS		7

HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
BINS AND CONTAINERS	BINS AND CONTAINERS		5-10
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
BOOKS & MANUALS	BOOKS		3-5
BOOKS & MANUALS	MANUALS		3-5
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
LEASED ASSETS	LEASED MACHINERY AND EQUIPMENT		AS PER AGREEMENT
<b>INTANGIBLE ASSETS</b>			
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
CAPITALISED DEVELOPMENT COST	CAPITALISED DEVELOPMENT COST		3-10
COMPUTERS SOFTWARE AND SYSTEMS	COMPUTER SOFTWARE		3-5
COMPUTERS SOFTWARE AND SYSTEMS	COMPUTER SYSTEMS		5-10
PLANS AND DESIGNS	MASTER PLANS		5-10
LICENCES AND RIGHTS	SERVITUDES		0
LICENCES AND RIGHTS	RIGHTS		AS PER AGREEMENT
<b>INVESTMENT PROPERTY</b>			
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
INVESTMENT PROPERTY	COMMERCIAL PROPERTY		0
INVESTMENT PROPERTY	RESIDENTIAL PROPERTY		0
INVESTMENT PROPERTY	LAND HELD FOR APPRECIATION OR DEVELOPMENT PURPOSES		0
INVESTMENT PROPERTY	LAND WITH UNDETERMINED USE		0
<b>HERITAGE ASSETS</b>			
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
CONSERVATION AREAS AND NATURE RESERVES	CONSERVATION AREAS		0
CONSERVATION AREAS AND NATURE RESERVES	NATURE RESERVES		0
HISTORICAL BUILDINGS AND SITES	HISTORICAL BUILDINGS		0
HISTORICAL BUILDINGS AND SITES	HISTORICAL SITES		0
STATUES, MONUMENTS AND MEMORIALS	MEMORIALS		0
STATUES, MONUMENTS AND MEMORIALS	STATUES / MONUMENTS		0
WORKS OF ART, REGALIA AND COLLECTIONS	REGALIA		0
WORKS OF ART, REGALIA AND COLLECTIONS	EXHIBITS / COLLECTIONS		0
WORKS OF ART, REGALIA AND COLLECTIONS	WORKS OF ART		0
<b>BIOLOGICAL ASSETS</b>			
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
BIOLOGICAL ASSETS	BIOLOGICAL ASSETS		0

## **ANNEXURE B: ASSET TYPES NOT CAPITALISED**

- Kettles
- Two-plate stoves
- Desktop fans
- Element heaters
- Fan heaters
- Stationery equipment, e.g. punches (not heavy duty), staplers (not heavy duty), etcetera
- Mattresses
- Other, as may be determined by management

## **ANNEXURE C: ASSET TYPES LISTED IN SUB-REGISTERS**

- Water meters
- Electricity meters
- Manholes
- Telephones
- Air conditioners
- Workshop equipment and loose tools e.g. angle grinders, drills, jigsaws, etcetera
- Toolbox items e.g. hall chairs
- Other, as may be determined by management